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FINANCIAL TIMES

Europe's Business Newspaper

MONDAY JANUARY 2 1995

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British minister is accused of lying to parliament

British foreign secretary Douglas Hurd was accused by an opposition member of parliament yesterday of lying to the House of Commons about four alleged breaches of government rules on financing for aid projects in relatively prosperous countries. The charges, arising from Mr Hurd's admission that he illegally endorsed a £216m (\$337m) aid donation towards Malaysia's Pergau dam, would almost certainly lead to the foreign secretary's resignation if proved.

Bosnian peace talks hold: United Nations mediators voice optimism about peace prospects as Bosnia's Muslim-led government and Bosnian Serbs started a four-month ceasefire. Page 2

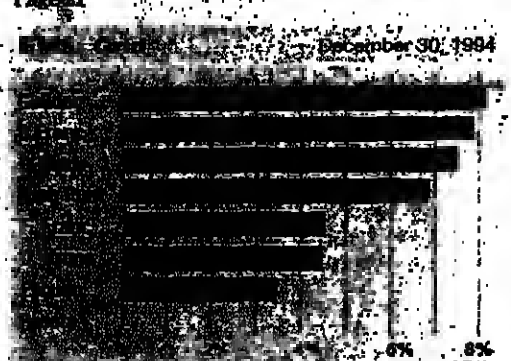
Mass murder suspect found dead: Frederick West, the British hunter accused of murdering 12 women, was found hanging in his jail cell. West's wife Rosalind, has been accused with him of nine of the murders at their house in the western England city of Gloucester. Page 5

France takes helm of EU: France began its six-month presidency of an enlarged European Union, Sweden, Finland and Austria joined the EU, increasing the EU's members to 15, its territory by one third, its population by 6.5 per cent and its gross domestic product by 7 per cent. Page 12

Cardoso becomes Brazilian president: Fernando Henrique Cardoso became president of Brazil, promising to deliver continued growth and to tackle the country's vast social problems. Page 3

Sasatchi & Sasatchi: The UK advertising group, has rejected at least one recent offer for its Bates network of agencies, believed to have come from the New York-based Ayer agency. Meanwhile Maurice Sasatchi, deposed chairman of Sasatchi & Sasatchi, has until tomorrow to decide whether to accept the largely honorary title of group president and chairman of the Sasatchi & Sasatchi advertising subsidiary. Page 13

European Monetary System: The EMS grid weathered some fairly sharp price movements last week, with the result that the Danish krone slipped below the French franc. This trading ahead of new year and political worries in Spain and France pushed both currencies to record lows. A rise in French base rates to 8.25 per cent later helped the franc recover some of its losses. Currencies, Page 11



Saudi Arabia to pay domestic creditors: King Fahd of Saudi Arabia ordered his finance ministry to give priority to meeting a backlog of payments to domestic creditors in the kingdom. Diplomats and economists estimate the government owes billions of dollars to contractors and suppliers. Meanwhile the world's biggest oil producer almost doubled local petrol prices and raised electricity charges. Page 2

Polish knock off the nougats: Polish banks began removing the zeroes from zloty bank accounts after the country made 10,000 old zlotys into one new zloty. The move reflects confidence that Poland's double-digit annual inflation will be down to a single figure by 1997. Page 12

BTR may appoint outside directors: BTR, the UK-based conglomerate whose shares have fallen by a quarter in the past three months, is considering appointing its first outside directors as it tries to rebuild investor confidence. Page 13

British Gas, the privatised UK utility, admitted it was discussing moves such as contracting out its main reading service, raising service charges and launching a new round of executive pay rises. Page 5

Water rationing imposed: Tough water rationing was introduced for residents of Zimbabwe's second city, Bulawayo.

Somali factions feud as UN troops go: Malaysian UN troops started leaving Somalia amid heavy fighting between rival factions in Mogadishu. The clashes have increased as the withdrawal of UN forces has gathered pace.

UK pension funds lose 4%: The market value of UK pension funds fell by 4 per cent last year, according to a study which also showed that 1994 was only the second year since 1975 that they gave negative returns. Page 12

Seven die in hotel fire: Five people were killed and more than 100 injured when fire broke out during a New Year's Eve party at a hotel in the Belgian city of Antwerp. In Scotland, two died when fire struck a hotel packed with revellers.

Aviation claims five lives: Five skiers died in avalanches in the French Alps during the new year weekend. Two Frenchmen, a German, a Swede and a British woman died in separate accidents.

Index	Value	Index	Value	Index	Value
FTSE 100	5,120	DAX	1,200	Nikkei	14,500
US S&P 500	7,200	Hang Seng	8,500	ASX	1,200
FTSE 250	3,500	Shanghai	1,500	SEAC	1,000
FTSE 100	5,120	FTSE 100	5,120	FTSE 100	5,120

Beijing threatens to retaliate against US sanctions

By Simon Holberton in Hong Kong and a Correspondent in Beijing

China promised wide-ranging retaliation at the weekend against threatened US trade sanctions in an escalating dispute over Chinese piracy of American intellectual property.

Beijing called Washington's warnings "barbarous", and said it would respond by doubling tariffs on a range of imports from the US.

China was responding to the decision by Mr Mickey Kantor, the US trade representative, announced at the weekend, to invoke so-called "special 301" provisions after eight unsuccessful rounds of talks last year about intellectual property.

The US wants China to close factories making counterfeit CDs and prosecute the manufacturers. It also wants better access to China's consumer electronics and computer markets.

Mr Kantor said the US has targeted \$2.8bn of Chinese exports covering 23 categories of products, including toys and shoes. Sanctions will come into force on February 4 if their differences are not resolved. China said the measures threatened would apply only if the US moved to impose sanctions.

Claim follows intense fighting Russia says its troops in control of Grozny

By John Thornhill in Moscow

Russian forces claimed to have taken control of the centre of the Chechen capital, Grozny, last night after intense fighting in the city's streets.

The Russian news agency Interfax quoted the defence minister, General Pavel Grachev, as saying: "The whole centre of the town and a number of districts in the town and its outskirts are under the full control of federal forces."

Troops moved into Chechnya three weeks ago to reassert Russian control over the breakaway Caucasian republic. In spite of Gen Grachev's claims, it seemed clear the Russians were encountering ferocious Chechen resistance.

After an assault on Saturday spearheaded by 300 tanks, Russian forces claimed to have seized several important buildings in Grozny, including the presidential palace. But independent eyewitnesses said a hastily assembled army of hundreds of Chechen fighters put up a fierce fight, beating back the initial assault, knocking out at least nine Russian tanks and capturing several Russian soldiers.

The balance of forces was unclear last night as thick palls of smoke hung over Grozny. Fires raged in several buildings, and gun battles continued to erupt on some street corners. Mr Dzhokar Dudayev, the Chechen president, was reported to be

holed up in a bunker. Mr Boris Yeltsin, Russia's president, sent forces into Chechnya to blockade Grozny and force the Caucasian republic to abandon its three-year independence.

The weekend offensive, launched as the rest of the country celebrated the new year, seems to have been timed to minimise domestic media coverage. No newspapers were published in Russia yesterday. Most will resume publication only on Wednesday.

It is not known how many people have been killed in the latest fighting. As of Friday, the official number of Russian casualties stood at 50 dead and 132 wounded. The Chechen authorities said at least 800 citizens had been killed in air raids on Grozny and claimed to have inflicted 600 casualties on Russian troops.

In a televised new year's message, Mr Yeltsin said his chief priority was to restore order in Chechnya. But his aggressive policy may carry a heavy political and financial cost, inflaming Muslim sensitivities and producing increasingly strident criticism from abroad.

Mr Robert Dole, the incoming US Senate majority leader, said the escalation of the Chechen crisis suggested Russian democracy "may be on the brink of failure". The use of force has fractured

Continued on Page 12
Media flex muscles over Chechnya, Page 2

Virgin Group plans venture in retail financial services

By Jim Kelly in London

Virgin Group, the airline and leisure group headed by Mr Richard Branson, is entering the UK retail financial services market in a joint venture with Norwich Union, one of the country's largest insurers.

An application has been made to the Personal Investment Authority to set up a direct-line company to launch sales in February of its own personal equity plan.

The move is a sign of the emergence of operators other than banks in retail financial services. The company, to be called Virgin Direct Personal Financial Service, will try to emulate the success of Direct Line, the telephone-based insurer owned by Royal Bank of Scotland.

Similar moves are occurring elsewhere in Europe. GE Capital, a subsidiary of General Electric of the US, entered the German consumer market last month by

taking control of Service Bank, the finance arm of Kaufhof stores.

Virgin said its investment was "in the millions of pounds". It intended to undercut competitors' prices and remove "jargon and gimmicks" from products, and would neither cold-call potential customers nor charge commissions.

Virgin said: "[We] can guarantee that if this product was launched today we would be the cheapest in the market by a considerable margin. The industry is run on 18th-century lines - like the way they used to sell mops in 1895."

The company hopes to expand quickly to provide a full range of personal financial services designed specifically for it. A range of personal pensions and insurance plans may be launched in September.

The move comes as new requirements come into force in the UK life insurance sector

under which companies will have to disclose the amount of sales commission they are charging customers who buy their retail products.

Norwich Union said it had put up 50 per cent of the equity for the company and would provide administrative support and investment expertise. "Both parties hope this will take off. We believe they have spotted a gap in the market," it said.

Initially 60 to 70 new staff, working in Norwich, will provide a telephone-based service five days a week from February 14. Staffing is expected to expand to 250 to provide a 24-hour service, and a headquarters site is being sought in the north-east or central England.

Virgin said: "We are looking at a good per cent of the UK market - maybe 10-15 per cent over three years." Sector analysts will be watching closely to see if direct sales techniques can work for non-essential financial products.

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BUILDING PEOPLE - BUILDING BUSINESS

LONDON - PARIS - FRANKFURT - NEW YORK - TOKYO

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■ US decision 'barbarous'.....Page 3

China's ministry of foreign trade and economic co-operation said it would double tariffs on imported US game-players and cards, cassette tapes, compact discs, alcoholic beverages, cigarettes and cosmetics. Those items represent some of the stronger growth sectors in the Chinese consumer products market.

Also high on Beijing's list is the suspension of talks with US car-makers about joint ventures in China's car industry. European and US car-makers

are engaged in a fierce contest for a share of what is forecast to become the world's largest passenger car market.

China also threatened to suspend limited imports of films, television programmes, video tapes and laser discs produced in the US and applications from American firms to establish holding companies.

Also facing suspension would be applications from US audio-visual manufacturers for branch offices and from US chemical and pharmaceutical producers for intellectual property protection, and Chinese ties to American trade organisations.

The battle over intellectual property is the most recent in a series of acrimonious trade disputes between the two countries as the administration of President Bill Clinton struggles to find ways to narrow an expected - and record - \$28bn trade deficit with China for the whole of 1994, second only to the gap with Japan.

China is already incensed with the US for thwarting its aggressive campaign to rejoin by the end of 1994 the General Agreement on Tariffs and Trade, making it a founding member of the new World Trade Organisation which started life yesterday.

Political and religious figures offering their hopes for the new year included (clockwise from the left): Pope John Paul II, US president Bill Clinton, North Korea's Kim Jong-il and Zaire's president Mobutu Sese Seko

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the new global economy, and to restore the American dream for middle-class families," he said, prompting one leading Republican to "welcome him to our cause".

In Germany, Chancellor Helmut Kohl made his own commitment to a rather more German version of motherhood and apple pie: a promise to restrain inflation, reduce unemployment

and consolidate the budget. As for President Jiang Zemin of China, he showed no doubt at all about the future. The Chinese people are "full of confidence" as they approach the 21st century, he declared, and China's stand

in the region was his most important task.

Mr Clinton, facing a less bloody but perhaps more intractable rebellion in the shape of a hostile Republican majority in the US Congress, resolved to "put aside partisan differences" - as if he had any choice.

"I'm going to keep doing the work we've begun to help Americans compete and win in



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NEWS: INTERNATIONAL

Kohl pledge on unemployment

By Judy Dempsey in Berlin

The German government will make every attempt to consolidate the budget and reduce unemployment, Mr Helmut Kohl, the German chancellor, said yesterday.

Unemployment is currently 8.3 per cent of the labour force in West Germany and 9.2 per cent Germany-wide.

Mr Kohl's comments coincided with the introduction of two tax surcharges and higher taxes as part of the government's attempts to curb the deficit as well as to pay for the continuing high cost of German unification.

In his New Year's Day article in the Welt am Sonntag newspaper, Mr Kohl said the government was also determined to keep inflation down, running at 2.5 per cent, but said industry would have to become more competitive on world markets.

The federal government deficit is expected to have fallen by DM10bn to DM57bn (€23.5bn) in 1994. The fall is largely because of an additional tax revenue of DM4bn and cuts in expenditure, especially the federal government's contribution to the German Labour Office, which supports the unemployed.

The federal, regional and local government deficit will total DM118bn, or 3.6 per cent of gross domestic product. Deutsche Bank Research estimates it will fall by DM7bn to DM111bn by the end of 1995. However, ways to consolidate the federal budget deficit, which is expected to rise by DM2bn in 1995, will be financed by the taxpayer.

These new taxes, insurance schemes, and increased levies include:

- The solidarity tax. Introduced for a short time after German unification to finance the modernisation of the east German economy and subsidise consumer spending. It is being reimposed as of this month. Germans will pay a further 7.5 per cent on their taxable income. It is expected that the solidarity tax will raise an additional DM28.5bn in revenues.

■ The Pflegeversicherung, or social insurance contribution to finance the nursing of those in care. Despite government pledges to reduce the tax burden on industry, employers and employees will this month start contributing to this scheme. Employees will pay 0.5 per cent of their income with a further 0.5 per cent paid by the employer, in an attempt to persuade employers to accept the new surcharge, the government abolished one day's holiday. The insurance will raise DM15bn in revenue, and will cost the taxpayer an extra DM240 a year for those on DM48,000.

■ The tax on private property will be doubled to 1 per cent and will raise DM1bn. The additional tax burdens have raised concern that consumer spending, still one of the most depressed aspects of the economy, will not pick up for at least another year. It is expected to grow by 0.3 per cent this year compared with 0.5 per cent in 1994.

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INTERNATIONAL NEWS DIGEST

Saudi Arabia raises power and fuel costs

Saudi Arabia, the world's biggest oil producer and exporter, yesterday practically doubled local petrol prices and increased electricity charges for high consumers. For the first time it imposed a 1,000 riyal (\$267) fee on visas for those arriving in the kingdom to work and said work permits in future would cost 100 riyals (\$27) and residency permits 500 riyals (\$135).

Behind the rises, long urged by economists, is the need to try to cut growing petrol and electricity use and increase government revenues to shrink the budget deficit. Saudi Arabia, whose exports fuel many of the world's power plants, has suffered its own electricity shortages. The low power bills have encouraged waste by consumers and generated little revenue for the electricity companies, which have found it difficult to finance infrastructure expansion. Annual percentage increases in electricity consumption have regularly run into double figures.

The apparently constant flow of ready cash from oil exports which cushioned the kingdom's citizens from economic reality has dwindled because of low oil prices on the world market, heavy spending on state infrastructure and more than \$50bn spent on the Gulf War. *Reuter, Dubai*

German police in clashes

Hundreds of young rioters throwing paving stones and fireworks clashed with police in the north German city of Bremen and the eastern town of Rathenow in early yesterday. In the eastern town of Wernigerode, three policemen were injured, one seriously, after being attacked in their car. Police held three of the rioters and said some were linked to the extreme right-wing Free German Workers' party (FAP). In Rathenow, police and smashed shop windows and traffic lights. Twelve people were detained. In Finsterwalde, also in eastern Germany, 200 youths went on the rampage. In Bremen, anarchists who have rioted during previous New Year celebrations fought police, smashing windows and barricading streets with cars and portable toilet huts. Six police were slightly injured and eight rioters were detained. *Reuter, Bonn*

Havel urges Nato to look east

Mr Vaclav Havel, president of the Czech Republic, yesterday urged Nato to expand its membership eastward as soon as possible to include the countries of central Europe. He also said Russia must respect the right of countries in the region to join the west's security alliance. Mr Havel called on western leaders to quickly resolve the security vacuum in the region by allowing entry of former Warsaw Pact countries. Referring to Russian opposition to Nato membership for its former satellites, Mr Havel said each country must decide its own future security arrangements but stressed that good relations with Moscow are a central plank of Czech foreign policy.

"If we reject Russia's opposition to our membership of Nato it is not because we see it as an enemy or that we want to isolate it," he said. "We only insist that it accept that a settlement based on the right of nations to decide freely for themselves can be truly successful." *Vincent Boland, Prague*

Algeria to probe hijacking

Algeria has appointed a prosecutor to investigate last month's hijack of an Air France airliner at Algiers airport. Algerian state radio said yesterday. Algerian laws prohibit the disclosure of the identities of magistrates and judges handling terrorist cases. French commandos stormed the Airbus airliner on December 26 at Marseilles airport, killing the four hijackers and ending the 54-hour Christmas ordeal for the 169 passengers aboard. The hijackers killed three passengers before the aircraft left Algiers on December 26. The hijacking was claimed by the Armed Islamic Group (GIA), Algeria's bloodiest Muslim guerrilla group fighting the army-backed authorities in the North African country. Many French and Algerians were shocked by the apparent ease with which the hijackers made their way through the heavily-guarded Algiers airport and commandeered the aircraft. *Reuter, Tunis*

Germany, Italy join UN body

Germany and Italy yesterday officially became members of the 15-nation United Nations Security Council, where France and Britain already have permanent seats. The four are the largest states in the European Union, and on many issues have a common foreign policy stance. Germany and Italy, along with Botswana, Indonesia and Honduras, were elected as non-permanent members of the Security Council for the years 1995 and 1996 to replace Brazil, Djibouti, New Zealand, Pakistan and Spain, which had completed two-year terms. Of the 15 Security Council members, five have permanent seats with veto power - the US, China, Russia, France and Britain. Another 10 countries rotate for two-year terms, five each year. The other five non-permanent members, whose terms expire at the end of 1995, are Argentina, the Czech Republic, Nigeria, Oman and Rwanda. *Reuter, United Nations*

Polish foreign minister quits

Mr Andrzej Olechowski, Poland's foreign minister, has said he will not be carrying out his duties from the new year, while his resignation is considered by Prime Minister Waldemar Pawlak. This now leaves both the foreign and defence ministries without ministers as Poland is pressing its demand to join Nato and looking for firm commitments from Brussels on future European Union membership. Mr Piotr Kolodziejczyk, the former defence minister, was recently dismissed at President Lech Walesa's insistence, and Mr Pawlak and the president have yet to agree on a successor.

Mr Olechowski first offered to resign last October after his name appeared on a list of government officials who also held paid directorships of state-owned companies. This, according to the Justice Ministry, which compiled the list, is an offence. Mr Olechowski is the head of the supervisory board of Bank Handlowy, a large bank, and was the only one of the scores of officials named to offer his resignation. *Christopher Bobinski, Warsaw*

Moi looks to new constitution

Kenyan President Daniel arap Moi said in a New Year message yesterday that he would invite foreign experts to help in drawing up proposals for a new constitution. In his message, issued by the Kenya News Agency, Mr Moi said constitutional lawyers and experts from countries including the US, Germany, France, Britain and Canada would be invited to assist in collating the views of Kenyans. Kenya's constitution has been in force since the country became independent in 1963. "I urge all Kenyans to recognise the importance of unity for our common good," Mr Moi said, noting that 1995 would present challenges - including those linked to the country's population growth, one of the world's highest. *Reuter, Nairobi*

Chile to renew Cuba ties

Chile is preparing to restore full diplomatic ties with Cuba, which were suspended in 1973, Chilean newspapers reported at the weekend. Foreign minister Jose Miguel Insulza refused to confirm or deny the reports, which quoted unidentified diplomats. Mr Insulza said only that President Eduardo Frei "may bring that subject of relations with Cuba into his agenda next month". Chile and Cuba severed relations in 1973 after the military coup that brought Chilean General Augusto Pinochet, an anti-communist, to power.

After civilian rule was restored in 1990, the two nations re-established relations at consular level. But Chile said that full diplomatic relations at an ambassadorial level would be restored only if the human rights situation in Cuba improved. *Reuter, Santiago*



Kohl: government 'determined to keep inflation down'

Castles join the sell-off in eastern Germany

By Judy Dempsey in Berlin

Germany is selling 20 castles in the eastern part of the country in varying states of disrepair, with prospective buyers being offered a 1944 century Schloss or castle for only DM1 (\$645,000) in return for pledges to invest and create jobs.

The castles, most of them located in the state of Mecklenburg-Vorpommern and Brandenburg, and a few in Thuringia, are coming under the hammer and being sold by the Liegenschaftsgesellschaft der Treuhand (TLG), otherwise known as the trustee for former state-owned real estate.

The TLG took over the castles after German unification, without knowing what condition they were in. They soon found out. Their former inhabitants were not the Prussian aristocracy, which once owned vast estates in Mecklenburg before 1945. The aristocracy were forced out of east Germany by the Russians and the Red Army which administered the region until 1949 when the east German communist party took power. They were granted no compensation, nor could they reclaim their property after unification.

Between 1945-1949, the property of these aristocratic families were expropriated by the Soviet administration, the land broken up and divided among German settlers expelled from Poland, the former Czechoslovakia and the former Soviet Union. In the past fifty years, the castles have had, to say the least, various functions.

The castle of Röttger, for example, in the state of Thuringia, was once the property of the Lords of Roschütz who date back to 1297, and later owned by an industrialist. In the Nazi period, it was used as a labour camp for women and as a hospital for Russian soldiers after the war. Later it became a school for East Germany's ardent communist youth.

The TLG, in advertising this particular castle, says: "One can well imagine using the manor house as a firm's prestigious headquarters." The recommended price is about DM1.7m but you get a smaller estate thrown in for the price.

Slightly less expensive is Schloss Wulkow in Brandenburg, for sale at DM1. It was once a massive, stone structure but as the TLG points out, "the building is in poor condition...it has been badly damaged by humidity...the original style or architecture can hardly be recognised today...recommended price DM1. Mr Günter Hiestand, TLG head, said 276 investors had already expressed interest in the castles.

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Bosnian ceasefire raises UN hopes

By Laura Silber in Belgrade

Bosnia's Moslem-led government and Bosnian Serbs started the new year with a four-month ceasefire intended to lead to negotiations on an end to Bosnia's 33-month-old war. The most ambitious ceasefire agreement reached by Bosnia's rival leaders lays the ground for peace talks to restart later this month.

United Nations mediators yesterday were brimming with optimism about the prospects for peace in Bosnia. Mr Yasushi Akashi, senior UN envoy in former Yugoslavia, and General Sir Michael Rose, the UN commander in Bosnia, at the weekend finalised details for the cessation of hostilities.

The deal, brokered a fortnight ago by Mr Jimmy Carter, the former US president, ended five months of diplomatic deadlock and enabled the Bosnian Serbs to return to the peace process. Mr Akashi yesterday said he expected talks on a political settlement to resume later this month.

To maintain the momentum, Gen Rose met rival military commanders at Sarajevo airport yesterday to determine the front lines. Over the next few weeks, they will try to disengage the warring sides - including the withdrawal of both armies to an agreed distance. "The important thing is that they don't look at each other," said Colonel Gary Coward, a spokesman for the UN Protection Force (Unprofor). Under the Carter plan, Unprofor will monitor the truce, as well as being interposed at the most sensitive flashpoints. With more than 1,000 miles of



UN envoy Yasushi Akashi and Bosnia's President Izetbegovic sign the truce at the weekend

front line, Unprofor's 23,000-strong force in Bosnia should suffice at the outset, said Col Coward, but he conceded reinforcements could be needed.

While UN officials cite "good will" on all sides, there is little evidence that this will translate into political compromise which could secure a lasting peace.

The Bosnian Serbs have maintained their defiant stand against the plan proposed by the Contact Group on Bosnia which comprises the US, Russia, Germany, France and Britain. The contact group plan calls for Serbs to hand

over one-third of the 70 per cent of Bosnia territory they currently control and recognise Bosnia-Herzegovina within its borders.

Despite international threats and the embargo imposed five months ago by their former mentor, President Slobodan Milosevic of Serbia, Bosnian Serbs are no closer to accepting the Contact Group proposal. "Standing firm has proved to be the correct policy," said Mr Jovan Zmestica, adviser to the Bosnian Serb leadership.

Indeed, once it had offered the warring parties a "take-it

or leave-it" plan, the Contact Group changed its position. In an effort to get the Serbs back to talks, the Contact Group devised a semantic compromise - calling them to "resume negotiations on the basis of the acceptance of the peace plan as a starting point".

It appears that the Bosnian Serb leadership considers the current front lines as the "starting point". By contrast, Bosnia's Sarajevo government fears that the deal will freeze those lines. The government accepted the plan, by its own admission, because the Serbs were bound to reject it.

At the weekend, Mr Alija Izetbegovic, Bosnia's president, reiterated his commitment to preserving Bosnia - if necessary by war. He warned that unless the Serbs endorse the plan, he will lobby for lifting the arms embargo.

Hopes for peace in Bosnia will be scuppered unless tensions are calmed in neighbouring Croatia. Zagreb last week warned that it would not renew Unprofor's mandate, due to expire on January 10, unless moves were made towards a political settlement with its rebel Serbs, who control one-third of Croatian territory.

INTERNATIONAL PRESS REVIEW

Media flex muscles over Chechnya

RUSSIA

By John Lloyd

Russian newspapers are living up to the liberal credentials they have professed.

In their coverage of the war in Chechnya, the leading liberal publications - *Gazeta*, *Izvestiya*, *Sovetskaya Komsomolskaya Pravda* and *Nezavisimoye Gazeta*, with weeklies such as *Moskovsky Novosti*, *Otkrytaya Gazeta* and *Literaturnoye Gazeta* - have engaged fully with events.

And though many are state-funded, they have been as robustly anti-administration as any free press in the world. In Russia's frail democracy, it still takes some courage to oppose a powerful administration which has so many powers to cut off support, to censure and to retaliate. So far, retaliation has been minor and censorship has not returned: but President Boris Yeltsin, in his address to the nation last week alleged that some parts of the mass media were supported by Chechen money - an allegation which the editors of most of the papers cited above have denounced as proven.

The newspapers, the wire services and the television channels have shown another kind of courage by putting

reporters on the spot in Chechnya and its capital, Grozny. Apart from the dangers of the war, the reporters are Russians operating between an army which does not want them there and Chechen fighters who might see them as Russians rather than reporters. The reporting has been vivid, courageous and (as far as war reporting can be) balanced.

There have been many leaks to the press because of the varying degrees of opposition expressed by some in the senior military command and the government. In the wake of the first abortive attack on Grozny on November 26 by forces of the Chechen opposition, *Izvestiya* splashed the revelation that the Russian officers captured by Chechen government forces during the attack had been recruited from the Kantemirovskiy division by the Federal Intelligence Service (the successor to the KGB) and paid R85m for their services: the divisional commander resigned in protest. Sergei Parkhomenko, one of *Sovetskaya*'s stable of talented young journalists, revealed that Prime Minister Viktor Chernomyrdin had spoken strongly against the military action during last Monday's Security Council meeting, calling it "military idiocy" and



"When all this is over, we will build kindergartens and nurseries" Cartoonist Vadim Misyuk's view of President Boris Yeltsin's address to the nation last week when he promised to rebuild Chechnya after the war.

forecasting that it would drag them all down. The voice which has spoken out most clearly against the action among the commentators has been Mr Otto Latsis, *Izvestiya*'s chief columnist. Mr Latsis' position is consistently liberal and was largely supportive of Mr Yeltsin until the Chechen crisis. Now he is in the opposite camp, and in a powerful article last week titled "The Chechen War is lost in Moscow", he named the "five victims" of the war as "the Russian economy, truth and reason, the illusion of the reality of the constitutional power, the democratic coalition for reforms and the future

development of reforms". In a move likely to incense Mr Yeltsin's supporters, *Izvestiya* named Mr Sergei Kovalev, the human rights campaigner, as its man of the year. Mr Kovalev, the former dissident who heads Mr Yeltsin's human rights commission, has been one of the most outspoken critics of the use of force in Chechnya and has spent much time in Grozny seeking a peaceful solution to the crisis.

The nationalist and communist papers, often speaking with similar (or the same) voices, have never shown the same news instincts as the liberal papers: their staple is commentary, brief news taken

from the wire services, and tendentious (though sometimes vivid) reporting. However, their main inhibition has been their inability to take a clear position: they wish to be seen as guardians of the statehood of Russia (though they prefer the statehood of the Soviet Union), but they do not favour Boris Yeltsin. Sergei Kara-Murza, one of *Sovetskaya*'s most prolific pens, put the dilemma thus: "A simple way of manipulating public consciousness is to put false dilemmas and questions to people: 'Ah, you're against the war in Chechnya - that means you're for the collapse of Russia? How can our people react to such a mendacious argument?'"

The Russian mass media have little to be ashamed of in this war. They are diverse, probing and combative. The state television channels have given considerable air time to government claims and less to reports which might contradict them - but they cannot and do not wholly ignore the evidence of their reporters' eyes, nor the views of the president's opponents. There is little in this conflict which can give much cause for optimism: the forthrightness of the media's response, however, does give some.

The Financial Times plans to publish a Survey on

Poland

on Monday, March 13.

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FT Surveys

China angry at threat of trade sanctions over copyrights

US decision 'barbarous'

By Jurek Martin in Washington, Simon Holberton in Hong Kong and a Correspondent in Beijing

China's strong initial reaction to the US threat of trade sanctions for copyright piracy may be "the storm before the calm," said Mr Mickey Kantor, US trade representative, at the weekend.

The storm came in the form of the language with which Beijing greeted Washington's decision, almost as it was announced. The US move was "barbarous," said the Chinese. Yesterday, the official New China News Agency accused Washington of ignoring China's great strides towards protection of intellectual property and of trying to bully Beijing with "the old tricks often resorted to by Washington in settling its trade disputes with other countries."

The US has listed 23 categories of Chinese products for possible punitive tariffs of 100 per cent. Chinese officials reacted swiftly, saying that, if the US carried out its threatened sanctions, China would

have no choice but to retaliate against US companies.

The news agency cautioned that "a full-fledged trade war would inevitably inflict losses, not only on China but also on the US. It may even harm the interests of other countries and regions which have direct or indirect involvement in trade with China or the US."

The Chinese feel they are being given little credit for their efforts to counter piracy. The news agency quoted State Copyright Administration officials saying China had seized 158m pirated books and 2.2m laser discs last year (1994).

"Though there still exist copyright thefts, and some cases are quite serious, the Chinese government's stand on fighting piracy is clear and our practice is fruitful," an official was quoted as saying.

Mr Kantor, albeit quietly, made his own contribution to the storm. He made clear that confrontation with the US over intellectual property was not without risk to China.

If unresolved, it would not advance the cause of Chinese membership in the new World

Trade Organisation (which came into being yesterday as successor to the General Agreement on Tariffs and Trade), he said.

Chinese policies in the area were, he said, far below the minimum standards expected of WTO members.

Mr Kantor did not need to point out that the Republican party majority about to appear in the US Congress is likely to favour a more muscular approach to trade disputes than its supposedly protectionist Democratic predecessor.

Even so, there were also early signals of the calm that might follow the storm. Both the Clinton and Bush administrations in the US went as far as to publish sanctions target lists, then reached agreement with China not long thereafter.

US officials also maintain that the current importance of the US market to China, consuming about 40 per cent of all its exports, is such that Beijing is unlikely to want to provoke a trade war. In the first 10 months of last year, China enjoyed a bilateral trade surplus with the US of nearly

\$25bn (£16bn), second only to that of Japan.

Chinese ambitions in the electronics sector may also induce settlement, some officials believe. They point to a recent agreement with Microsoft to produce Chinese-language software and predicated on the protection of the US company's intellectual property rights.

When he announced the putative sanctions on Saturday, Mr Kantor was careful not to rule out an agreement this month in the next round of negotiations, due in Beijing from January 23.

Western diplomats regard China's retaliatory threats as not unusual for Beijing and say Chinese officials have already tabled new negotiating proposals to meet Washington's demands. However, China will have to offer significant compromises to satisfy the US, including closing 26 factories illegally copying compact and laser discs. That demand is particularly sensitive as some of the companies are known to have connections to the Chinese military.

LIST OF CHINESE GOODS TARGETED

The list of Chinese goods which may be subject to punitive US tariffs includes a variety of electronic products, Reuters reports from Washington.

Mr Mickey Kantor, US trade representative, said electronics accounted for \$1bn (£641m) of the \$2.5bn in the annual trade value of items on the list.

The list of potential targets included telephone answer machines, CB radios, cordless handset telephones, some radio telephones for use in motor vehicles, some types of telephone antennas, burglar alarms, lamp-holders and some wirings.

Also listed were DC motors with an output of 74.6-735 watts, bicycles with wheels of a diameter from 50-55cm (19.6-21.6 inches), some battery-powered watches, upholstered wooden or metal chairs, outdoor chairs with textile cushions, wooden bedroom furniture (except

for beds), and furniture made of cane, osier or bamboo.

The list also included electric lamps of base metal, household chandeliers of brass, some water sports equipment, swimming and wading pools, fishing rods and ball-point pens.

Candlelit nubs, citric acid and containers of mushrooms weighing less than 255g were also listed.

Also included were some small plastic bags, picture frames, reflective triangular warning signs for road use, surgical gloves, some leather trunks, leather gloves, textile-lined wooden cases used for jewellery or tools, diaries and address books, and some types of greeting cards.

Silk gloves and mittens were on the list, as were silk handkerchiefs, shawls, scarves and mufflers.

Infants' footwear was listed, as was

children's footwear, women's sports shoes with uppers more than 50 per cent leather, and women's shoes made of leather and rubber or plastic and valued at more than \$2.50 a pair.

The preliminary target list also included some types of ceramic household and toilet articles, some statuettes of porcelain or china, and some jewellery parts. Also listed were some iron or steel washers, and some metal kitchenware.

The list of potential changes in the US tariff code was submitted on Friday to the Federal Register and should be published soon.

Public comment will be accepted for 30 days. Hearings on the list were set for January 24 and 25.

On February 4, a decision will be made by the US administration as to whether to issue a final list.

Foreigners to own Mexico banks

By Stephen Fidler in Mexico City

Mexico is set to throw open its banking system to foreign ownership, as part of a programme to limit the damage caused by the devaluation of the Mexican peso last month.

President Ernesto Zedillo is due to announce details of the emergency programme - also expected to include reductions in government spending and an agreement with business leaders and trade unions to limit wage increases - tonight in a national televised speech.

Foreign banks are now allowed to open branches in Mexico but foreign ownership of banks has been forbidden.

Mexico's banks, nationalised in 1982, were privatised in the six-year administration of President Carlos Salinas, who stepped down on December 1.

The move to let foreigners own Mexican banks comes amid concern for the health of some banks after the 32 per cent devaluation of the peso since December 19.

Government officials said a plan is also being prepared to ease the restructuring of banks in case any bit difficulties this year.

It also comes as two US banks, JP Morgan and Citibank, are trying to arrange a stand-by credit for Mexico by private international lenders as part of an overall support package which would raise at

least \$10bn (£5.4bn) from official and private sources, beyond \$7bn already pledged by the US and the Canadian governments.

In his speech, Mr Zedillo is expected to announce government spending cuts of 2 per cent. He is likely to forecast 1995 growth of 1.5 per cent and an inflation target of close to 15 per cent. The peso closed at 6.07 to the dollar on Friday but the budget will assume an exchange rate of 4.50. The government hopes it could be as high as 4.00.

The package will aim to reduce the current account deficit from almost 8 per cent of gross domestic product in 1994, to between 3.5 and 4 per cent

this year. "We have to reduce the current account deficit to the levels at which it is financeable," said a senior government official.

The government has been negotiating at the weekend with trade unions and business leaders to reduce the inflationary effect of the devaluation. The government wants to limit wage increases to as close as possible to 7 per cent next year, which will be difficult since many shops have already put up prices since the devaluation.

John Riddling adds from Paris: France said yesterday that it was prepared to participate in an IMF-sponsored support package for Mexico.

Reaching for new credibility

Stephen Fidler finds pessimism over the Venezuelan economy

Venezuelans will be pleased to see the back of 1994, but few see reason for optimism in 1995. Even the optimists, such as the finance minister, Mr Julio Sosa, are forecasting a stagnant economy through 1995.

The pessimists these days often prefer to keep their heads down. When economists from a respected Caracas business school presented 1995 economic forecasts that were more pessimistic than the government's - one expecting a 4 per cent economic contraction and inflation of 100 per cent - they were denounced by President Rafael Caldera as traitors.

"We will have no - or low - growth, high inflation repressed by controls and growing unemployment. This will mean growing inequalities and greater social fragility," said one well known economist in Caracas. With unemployment estimated at 13 per cent and job losses growing, many people who start looking for work after today will not find a job. This, together with high

inflation, to which Venezuelans are accustomed than are other Latin Americans, is seen by some as a recipe for social unrest.

Mr Caldera's first year in office has hardly been auspicious. He took over at the start of a banking crisis and his government has become, in less than a year, the involuntary owner of a substantial majority of the banking system.

It has imposed exchange controls to check capital flight and price controls - measures which the government has promised will be temporary. It also fixed the exchange rate, at 170 bolivars to the dollar, in a bid to halt a collapse in the currency. Despite price controls, inflation has been, by the government's estimates, about 60 per cent this year and, by those of the private sector, upwards of 70 per cent.

The exchange controls have succeeded in lifting international reserves, but have created problems for the private sector. Mr Marco Gómez, head of the Bank of America's operations in Caracas and president of the Foreign Bankers' Association of Venezuela, estimates that Venezuelan companies owe \$6bn-\$8bn (£3.6bn-\$5.4bn) in US dollar loans to foreign banks, most of which are falling into default. "We are concerned about how this is going to be serviced. Most of our loan portfolios are becoming chronically past due, requiring the imposition of costly reserves," he said.

The government has promised action early in this new year to help companies deal with some of these debts, but the problems contributed to the closure of Venezuelan access to the capital markets.

This itself has had repercussions. CANTV, the part-privatised telephone company in which GTE of the US has a prominent stake, is negotiating a rescheduling of its \$1.2bn short-term debt, most incurred to finance a capital spending programme. It had planned to extend the maturity of the debt in the international markets but found no investors.

Others are less confident. They say exchange and price controls, and the suspension of some constitutional guarantees, have created an image of a government that makes up its own rules as it goes along. "The government will need to re-establish credibility. To do that, it will need a track record of at least one year of doing well and abiding by the rules," says one economist.

Mr Francisco Aguirrevere, chairman of Electricidad de Caracas, a private electricity utility, says: "There's no way investment will come into the country while exchange controls remain and without clear rules of the game. That means, unless the right conditions are



Caldera: Facing a tough year

In place, the government will either not privatise or will privatise at very low prices."

Bankers are also sceptical that the banks which the government has taken over - at a cost estimated by Mr Sosa at 11 per cent of GDP - will find buyers soon.

Furthermore, while the government's decision on a significant opening of the petroleum sector to foreign investment is expected to yield benefits in the medium-term, this will not benefit the 1995 budget. The government's promised decision to raise petrol prices (at the equivalent of five US cents a litre) has also been postponed beyond the date advertised by officials. The government is worried that raising petrol prices would bring social protest, as a similar move did in 1989, but delaying increases would widen the budget deficit.

For all these reasons, there is a widespread scepticism that the government has the finances under control. "There is a huge fiscal problem," says a Venezuelan economist. "The budget under-estimates expenditures, over-estimates revenues, and shows no strategy in terms of promoting investment, building infrastructure or rationalising bureaucracy."

Mr Caldera's government is also criticised for further undermining the state's already weak institutional structure. The independence of the central bank has been severely weakened, and Mr Caldera has set up several new bodies, reporting directly to him, which side-step government departments. These include a financial emergency board, a special commissioner to fight corruption and an advisory board on housing.

The government remains unapologetic. Mr Sosa, an engineer by profession, says Mr Caldera has used his special powers sparingly and the suspended constitutional rights will "be returned in the near future". Besides, given the country's problems, he says: "The president doesn't have enough power."

Brazil's new president promises growth

By Angus Fieger in São Paulo

Mr Fernando Henrique Cardoso, once a left-wing academic and now a social-democratic politician, yesterday assumed the presidency of Brazil. He pledged to deliver continued economic growth and tackle the country's huge social problems.

Mr Cardoso said Brazil had the right set of conditions for "a long period of growth", but that his "great challenge and number one priority" was to deal with such social problems as health care and basic education.

"This country is going to get things right. Brazil has everything needed for it to work," he said.

Mr Cardoso, facing four years in office, also promised to try to lift Brazil's international profile. The Mercosur customs union - linking Brazil with Argentina, Paraguay and Uruguay - took effect yesterday and Brazil hopes its leadership of the union will increase the country's diplomatic presence.

Mr Cardoso has said since his election victory in October that his main short-term priority is to guarantee the stability of the Real currency, introduced in July, and keep inflation



The people's choice: President Fernando Henrique Cardoso has four years of his administration in prospect

low. Mr Cardoso helped to plan the Real when he was finance minister.

However, most analysts agree that the government's tax and social security systems need urgent reform for its budget to be balanced and the Real to stay credible.

Loss-making state-owned

banks also need to be overhauled. This was helped by the announcement last Friday of a period of "special intervention" by the central government in the two most problematic banks, Banespa and Banerj.

Mr Cardoso said he was committed to tackle Brazil's social problems. These include one of

the world's greatest differences between rich and poor, high illiteracy rates and rapid urbanisation.

He stressed the need for preventive health care and improved basic education.

The new president took office amid enormous public support and optimism, after

one of the smoothest administrative transitions in recent Brazilian history.

An opinion poll last week showed approval of Mr Cardoso at more than 70 per cent of respondents. He gave credit to his predecessor, Mr Itamar Franco, for the easy exchange of power.

Donors look for Nigeria to shift tack

Paul Adams on the need for this month's budget to signal an assault on spending

As a guide to government spending, Nigeria's recent budgets have proved wildly inaccurate. But, since the military regime took power in November 1993, the main economic policy decisions have coincided with the budget.

Investors and official donors are waiting to see whether General Sani Abacha's second budget speech, due early this month, will start to undo the damage caused by his first. At stake are Nigeria's chances of reviving an economy in deep decline, and of breaking a cycle of external debt.

Last January, Gen Abacha's first budget forecast a balanced budget, but the actual deficit is said to be \$4.5bn (£2.5bn), despite higher than expected oil prices. The main part of Nigeria's external debt has not been serviced for nearly three years, according to payment records in the Paris Club of creditor nations. Scheduled debt service is nearly 100 per cent of government revenue and the 1994 budget ended negotiations with the creditors.

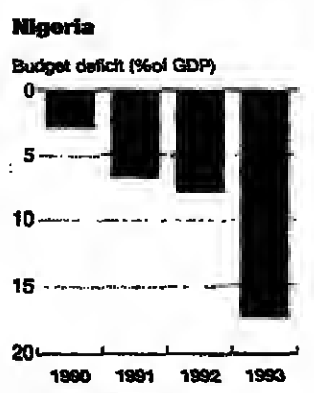
The imposition of a fixed currency exchange rate and interest rates was condemned by the World Bank and has led to a lack of transparency and

uncontrolled government spending. As the government printed money to fund deficit spending, inflation surged beyond 100 per cent this year; the official foreign exchange market almost dried up and the black market naira rate plunged from N50 to N100 to the US dollar between June and November.

Redundancies have become widespread in manufacturing industry as capacity utilisation has dropped below 30 per cent. Most economists estimate that gross domestic product registered negative growth in 1994, although the large informal sector makes such estimates difficult.

Mr Kalu I. Kalu, who opposed government policy and argued for deregulation, was dismissed as finance minister two months ago. The acting finance minister, Mr Anthony Ani, has held talks with a delegation from the International Monetary Fund, the first contact between the government and official creditors since February.

The fund is looking for significant steps to deregulate currency exchange and interest rate policy, and is particularly concerned about the government's deficit spending and lack of transparency.



Source: World Bank / IMF

Shortfalls in budgeted allocations have crippled social services, reduced the supply of foreign exchange to industry and cut funding to its joint ventures with the oil production companies. This has led to arrears to the industry of about \$300m and the prospect of sharply falling production and defaults to contractors next year.

Extra revenue from the recent sharp rise in official fuel prices is going into a special trust fund over which there are inadequate financial controls, according to western donors.

The government maintains dedicated accounts offshore, worth \$1.5bn this year or more

than 10 per cent of Nigeria's oil production, according to the finance ministry. The accounts are funded by oil revenue which never enters the government's books. The presidency has sole charge of the largest of these accounts, which receives an estimated 150,000 barrels a day of oil revenue, nearly \$900m a year at today's prices.

The strongest criticism of this system recently came from a government-appointed panel of inquiry into the central bank of Nigeria. "Between September 1988 and June 1994, \$12.4bn had been recorded in these accounts," according to the report by the panel, headed by a former government economic adviser, Mr Pius Okigbo.

The panel found "that \$12.4bn was liquidated in less than six years, that [it] was spent on what could neither be judged genuine high priority nor truly regenerative investment, that neither the president nor the governor [of the central bank] accounted to anyone for these massive extra-budgetary expenditures, that these disbursements were undertaken while the country was openly reeling with a crushing external debt overhang". The report recommended immediate closure of

these accounts and reminded the central bank that, in advancing more than 12.5 per cent of annual budgeted revenue to the government to fund its deficit, the bank was breaking Nigerian law.

So far, there is no sign that the regime is willing to listen. The donors may offer the prospect of aid and debt relief in return for reform, but the Nigerian government has already begun not to pay debts to the Paris Club and there has been little new official aid to Nigeria for years.

One possible incentive is the government's need to unlock international finance for gas export projects. The state-owned Nigerian National Petroleum Corporation owns 49 per cent of the liquefied Natural Gas company, along with Shell and other partners, which needs more than \$2bn to complete project funding early next year, mainly from export credit agencies in Paris Club countries.

Projects such as this offer badly needed prestige and new sources of revenue. Foreign exchange regulations and the state's under-funding of the oil industry are harming the economy to the extent that even the government could soon start to feel the pinch.

Insurers bend before the winds of change

Canute James assesses a Caribbean risk market

The Caribbean's insurers are breathing a little more easily. The hurricane season has ended and, despite damage to the banana industry in some of the Windward Islands, and the late meandering of Hurricane Gordon, the storms were less damaging than many had expected.

The insurers' relief, however, masks their continuing depression at the unforgiving state of the international market for property catastrophe re-insurance. Caribbean efforts to obtain re-insurance coverage have been more difficult and expensive than those of many other regions, insurers say, and Caribbean countries face abiding trouble in obtaining risk coverage, even at rates they consider exorbitant.

Catastrophes ranging from hurricanes and earthquakes to oil spills, floods, fires and an attempted coup led to multi-million dollar settlements which have seriously hurt a number of big companies covering Caribbean insurers.

The problem is not unique to the region, but insurers say the Caribbean is increasingly viewed as more exposed than most, and carries insufficient premium coverage.

So extensive is the problem that Caribbean governments have become increasingly concerned.

The cost of property insurance has risen to the stage where most in the region are finding it difficult to secure mortgage finance for homes, and where developers find

insurance coverage almost impossible to obtain. Government officials consider this a disincentive to foreign and local investments which regional economies need.

The governments have commissioned a study on ways of dealing with the increased costs of catastrophe re-insurance for the Caribbean, and on what is seen as the unwillingness of the international industry to re-insure risks in the Caribbean.

Caribbean governments claim that catastrophe re-insurers have erred by "conjoining" the Caribbean to other areas (by implication, the southern and south-eastern US) "without sufficient consideration to the southern part of the Caribbean where disaster risks are relatively low."

Suggestions for the creation of a regional catastrophe re-insurer have been defeated by what officials say would be a prohibitive capital cost needed to generate confidence, even if the region's re-insurers and governments made it a joint venture.

While the perceived exposure to catastrophe has contributed to the Caribbean problems, these continue to be compounded by changes in some economies.

Extensive economic deregulation and the liberalisation of foreign currency markets, accompanied by the floating of currencies, have led to currency depreciations in several countries over the past four years.

Inflation, and the increased cost of premiums in local dollar terms, has made full risk coverage all but impossible, except for a few. Some regulators in the Caribbean say also that there is a need for restructuring the property insurance market there. In times of climatic quiet, risk coverage was a safe investment.

Many companies were established and they did well. More recently, though, some have had difficulty weathering the climatic and economic changes.

One solution which the study commissioned by the governments may offer is a form of rationalisation which could lead to a spate of mergers among the many small companies created in recent years, or to the acquisition of their portfolios by bigger insurers.

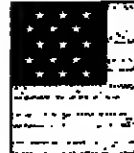
Regulators consider this likely to create more stability, although they question the methods which could be used to encourage the mergers, and whether this would diminish the chronic problem of obtaining easier and cheaper catastrophe re-insurance.

Property insurers feel that their problems in obtaining catastrophe coverage from external re-insurers will end when there is a perceptible reduction in the number and strength of the region's storms and hurricanes. But, by all indications, says one, the changing global climatic conditions promise more and stronger winds.

1995: AN INTERNATIONAL CALENDAR

January

■ 1st The World Trade Organisation is born, but Gatt isn't dead yet - it will linger on for the year. China will be haggling for membership. The WTO is intended for matters multilateral, and bilateral squabbles will be settled in the usual way, outside the establishment.



■ The EU expands to 15 as Austria, Finland and Sweden come to Brussels. Elsewhere, countries are forming their own clubs. Colombia, Venezuela and Mexico establish a common market - though it will take 12 years. And there is Mercosur, the customs union of Argentina, Brazil, Paraguay and Uruguay, for better or worse, for richer or poorer.

■ 18th European parliament votes on approval of the Santer Commission



□ Before the Tet lunar new year festival, Vietnam's ruling Communist party is scheduled to hold a landmark conference, and will face a dilemma over doi moi (reform). As an official put it: "Of course, getting rich is good. The thing is

whether you get rich legally or not."

■ 20th The US musical year opens with two world premieres. *Simon Bolivar* by Thea Musgrave at the Virginia Opera; and the following night in Houston, *Harvey Milk*, written by Stewart Wallace and Michael Korie, on the life and murder of San Francisco's first openly gay elected public official.

■ 29th Bill Koch opens the defence of his title as champion of the eccentric billionaire when trials for yachting's grand prize, the America's Cup, begin in San Diego. His yacht this year, *Kerza*, is crewed by women. Finals start on June 6.

■ 31st UN's 5,500 blue helmets due to pull out of Mozambique.
□ Italy's neo-fascist MSI/National Alliance, a partner in the Berlusconi government, plans a congress to decide a new constitution. The MSI, descendants of Mussolini's fascists, will vote themselves out of existence - in name only. The "modern right" can be found in the phonebook under *Alleanza Nazionale*.

February

□ Ramadan, the Islamic month of fasting, begins - the precise timing depends on the first sighting of the crescent moon. Office hours are limited in some countries.

■ 19th Hesse state elections in Germany promise worrying times for the Free Democrats, the junior partners in Chancellor Helmut Kohl's coalition. Led by Mr Klaus Kinkel, the foreign minister, the FDP has lost 10 elections in a row over the past 16 months.

■ 22nd Spanish Still Life from Velázquez to Goya, at London's National Gallery. A full retrospective of Willem de Kooning arrives at the Tate on the 18th.

■ 23rd Senator Phil Gramm of Texas is due to announce his candidacy for the Republican party's presidential nomination. Other nominations and brawling will follow.

■ 28th India's finance minister Mr Manmohan Singh expected to present his



Still Life with Sweets and Glassware by Juan van der Hamen y León Museo del Prado, Madrid

fourth budget - a test of the government's reformist resolve.
□ China expected to seek international financing for the Three Gorges Dam on the Yangtze River. The government is looking for about \$3bn and new

homes for 1m people.

□ Chinese Year of the Pig - Chinese warblers parents say this year is inauspicious for having children, who are believed to take on the characteristics of said animal, sloth and gluttony.

March

■ 6th-7th EU and Turkish foreign ministers meet in Brussels to discuss creating a customs union in 1996. Previous meetings have foundered on obstacles more political than economic.



Turkey's human rights record and Greece's opposition to things Turkish.
□ Revival of the 1961 Pulitzer Prize-winning musical *How to Succeed in Business without Really Trying* featuring Matthew Broderick at the Richard Rodgers Theater in New York.

In London Diana Rigg pushes out the handcart as *Mother Courage* at the National.
■ 6th-12th As well as attacking poverty, creating jobs and improving health, delegates to the World's Social Summit in Copenhagen will be trying to come up with something other than a fatalistic response to the "grey revolution" - the ageing of the world's population. Between 1950 and 2025, the world's population will increase threefold, the number of people over 60 sixfold, and the number over 80 by a factor of 10.

■ 15th Time to find a new global trade chief, as Peter Sutherland's term as caretaker of the WTO comes to an end - a renewed Gatt deadline, very unlikely to

be postponed.

■ 19th Finland parliamentary elections

□ The Czech government is due to decide the winner of a tender for a 27 per cent stake in SPT Telecom, the national telephone operator. The deal could be worth up to \$1bn.

■ 28th The first conference of parties to the Convention on Climate Change - world's environmentalists converge on Berlin for the biggest international get-together since the Rio Earth Summit of July 1992.

□ Zimbabwe expected to go to the polls. While President Robert Mugabe and the ruling Zanu party are expected to make it their fourth victory in a row, good economic management may be a casualty. The opposition is divided and poorly led, but Mr Mugabe is unlikely to press ahead with privatisation policies and curbs on state spending until the election is safely out of the way - and even then his heart may not be in it.

□ Estonia is also to hold elections.

April

■ 3rd It is what might not happen on this day that concerns all right-thinking Americans. According to the published schedule, Cal Ripken Jr should be starting his 2,010th consecutive game for the Baltimore Orioles at home against the Chicago White Sox. He would be just 120 games shy of the durability record set nearly 60 years ago by Lou Gehrig (pictured right) of the New York Yankees. But the baseball season might not start, or, if it does, it will be with lesser performers hired to replace the striking major leaguers. Ripken has said he will cross no picket lines, his chance at immortality regardless.

■ 9th Alberto Fujimori, the son of Japanese immigrants, battles for a second five-year term in Peru's presidential election. A surprise winner in 1990, this year he has the burden of leading the field. Among a couple of dozen



opponents, the best known internationally is Javier Pérez de Cuellar, the former UN secretary-general, absent and untarnished by the last few decades of Peruvian politics. The challenge of Fujimori's wife of 20 years, Susana Higuchi - who is divorcing him - has been ruled unlawful. She will run for Congress.

■ 13th Judgment day on Newt's "Contract with America": 100 calendar days after the convening of the new Congress. Speaker Gingrich has promised to have introduced - but not necessarily passed - legislation covering the main points of his "contract with America". This includes big tax cuts, a balanced budget amendment, limits on congressional terms, voluntary prayer in schools, higher defence spending and much more. It will be impossible not to have an opinion on whether the right-wing bomb thrower has transformed himself into a realistic leader of Congress.

■ 23rd French presidential elections - first round.

May

□ End of April, beginning of May, the best, but uncertain, guess for the conclusion of the trial of O J Simpson, the former US football star accused of murdering his wife and a friend - the *ne plus ultra* of celebrity court cases. Everybody, except the jury in Los Angeles, already has an opinion. American life will only get back to normal when it is all over.



This sporting life: Simpson awaits verdict. Menem plays soccer. Tyson awaits freedom

■ 2nd-5th Asian Development Bank meets.

■ 10th French presidential elections second round. The right is set to strengthen its grip. The decision by Mr Jacques Delors, the Socialist favourite, not to stand has left the field to the Gaullist rivals Mr Edouard Balladur and Mr Jacques Chirac. Barring a Socialist saviour, it will be they who come out fighting in the second round.

■ 14th - Argentina's presidential

elections, and Carlos Menem is hoping for a further four-year term after a six-year period in office.

□ Mike Tyson, barring knockouts on the inside, could be freed from prison.
□ Autonomous Kurdish government to hold parliamentary elections in northern Iraq.

■ 23rd-24th OECD ministerial meeting in Paris.

■ 25th The rugby union world cup kicks off in Cape Town: the hosts against Australia, the current champions. The final will be played on June 24 in Johannesburg.

□ Regional and municipal elections in Italy. The date will depend on when, or if, fresh general elections are held: outgoing premier Silvio Berlusconi is anxious for these to be held at the end of March or early April.

■ 29th Nationwide municipal elections in Spain. The polls will be a key mid-term popularity test for prime minister Felipe González.

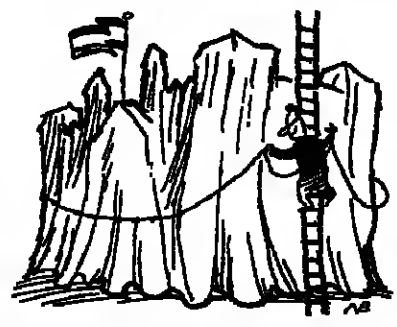
June

■ 11th Europe's greatest contemporary Art-Fest, the Venice Biennale, congratulates itself on its centenary from June 11.



■ 18th - 18th The Group of Seven economic summit, in Halifax, Nova Scotia - an occasion for serious introspection. The leaders of the US, Japan, Germany, France, Britain, Italy and Canada, as well as the European Commission, will begin reviewing the institutions of global co-operation - UN, IMF, World Bank and Nato - with the intention of making them more compatible with some of the initiatives of the post-cold-war world - the WTO and the Partnership for Peace. It is unlikely that the G7 itself will escape discussion.

□ Le Mans 24-hour race, France.



follows Florida Islands and French bridges with Germany's Reichstag. The once and future parliament will be draped in 80,000 sq m of reflective fabric secured by a royal blue rope. The renowned wrapper has been criticised by Mr Wolfgang Schäuble, parliamentary head of the governing Christian Democrats, who says people will not understand why the Reichstag is being wrapped up - but the people's representatives in the Bundestag voted by a margin of 69 to back the estimated \$5m-\$7m parliamentary packaging.

□ France holds EU summit in Cannes - Spain takes over the EU presidency.

□ 50 years since the signing of the UN Charter.

■ 30th Deadline for the negotiations on financial services, left over from the Uruguay Round of global trade talks. The talks, covering access to foreign markets for banking, insurance and securities firms, mainly pit the US against Japan and some other east Asian nations.

July

■ 1st The wages of sin may be inexorable but in Taiwan, at least, the taxes will soon be lower. Taiwan has promised to dismantle a decades-old government monopoly on production, distribution and sales of alcohol and tobacco products as part of its application to join the World Trade Organisation.

■ 5th To celebrate the UN's 50th birthday, a "Musicians for World Peace" concert will be held at Geneva's Victoria Hall with musicians from around the world conducted by Sir Georg Solti playing to an invited audience.

□ Asean annual summit in Brunei.

■ 23rd Elections for members of Japan's Upper House - the first national elections since the formation of the New Frontier party (Shinshinto in Japanese - literally, the New New party). Also a likely turning point for the Social Democratic party and

the Liberal Democratic party coalition, as the wrinkles in the governing marriage of convenience are exposed to the electorate. Possibly another pre-poll political realignment.

□ A new novel due from Gabriel García Márquez.

■ 28th *Waterworld*, the \$140m aquatic sci-fi epic starring Kevin Costner, stages its US premiere. The most expensive movie ever made was also one of the most problematic. The sets have leaked. The script has been rewritten. The star is already limping from the box office disaster of *Wyatt Earp*. Hollywood gossips are suggesting *Waterworld* may be the biggest box-office bomb of all time. (Of course, they predicted the same for his megahit *Dances with Wolves*.)

□ Under pressure from Taiwanese businessmen frustrated by being forced to travel to China via Hong Kong, in their view a waste of time and money, Taipei will move toward restoring transport links banned since 1949.



The old, old prime ministers who lead the New New party: Toshiki Kaifu and Tsutomu Hata

The Taiwan government has promised to publish in July a comprehensive report on the technical and logistical aspects of direct shipping and air links across the strait.

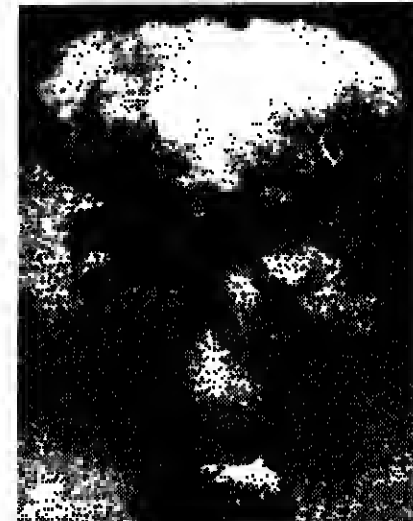
August

■ 15th The 50th anniversary of the end of the war in the Pacific. A difficult year for victors and vanquished as they manoeuvre through a minefield of painful anniversaries. Commemoration of the Hiroshima (on the 6th) and Nagasaki (on the 9th) bombings will strain US-Japan relations, from both directions. Other Asian nations have their own liberation calendars and individual sensitivities that politicians prone to generalisation are liable to offend. In Europe in May, VE Day may offer tub-thumping opportunities, but memories of the UK muddle organising a D-Day jamboree is likely to temper the party spirit. Remembrance and reconciliation will be tested worldwide.

■ 10th-13th PGA Golf in the US.

■ 13th Edinburgh International Festival for drama, music and dance begins.

■ 19th The Rolling Stones will stagger, or swagger, to the end of the highest



The world remembers

grossing tour in rock history when they play the final gig in the Voodoo Lounge tour at Hockenheim in Germany. Voodoo Lounge has already won a place in the record books having grossed £150m on the US leg alone. It also claims the record for T-shirt sales - \$80,000-worth on one night.

□ Some of the largest British banks, including HSBC Holdings, the parent of Midland Bank, and National Westminster Bank will report half-year results, and may be a little embarrassed at just how profitable they have become.

■ Pain for participants, entertainment for spectators: the World Championship Athletics in Gothenburg, the Palo in Siena.

□ The British Museum in London is putting on a major show of the works of Utamaro, one of the greatest of the masters of Ukiyo-e, the "floating world" of Edo; from August into the autumn.

■ 29th 100th anniversary of discovery of rugby league.

September

□ Trade quadrilateral - annual meeting of trade representatives from Canada, EU, Japan and the US.

■ 14th Stockholm: UN conference on the rights of the child.

□ US moratorium on nuclear testing expires.

□ Beijing: fourth UN conference on

women. It will be an opportunity for Beijing to showcase its policies, and for delegates to raise embarrassing issues, including the detention of dissidents and Tibet.

China's daughters have high-aspiring minds. They love their battle array, not silks and satins.

- From *Militia Women*, Mao Zedong, 1961

■ 17th Legislative Council elections in



October

■ 1st From today, the UK will move into line with the rest of the EU by adopting metric measures. Beer and milk will still sell in pints rather than half-litre measures - provided these precious liquids are in return containers. Road signs will stay in miles, rather than kilometres.

□ A second Hamlet comes to London. Simon Russell Beale, directed by Sam Mendes, transfers to the Donmar Warehouse after the premiere at Odeon Paris. His arrival follows Ralph Fiennes (of *Schindler's List*) as the Prince of Denmark in Jonathan Kent's production at the Hackney Empire in London's East End in February and then in May at the Belasco Theatre in New York.

□ A general election in Portugal is scheduled, but beware: the opposition Socialists want to bring it forward to June.

■ 12th The Tate offers *Dynasties* - the painting of Tudor and Jacobean England.

And the French, from October, promise, at the Grand Palais in Paris, a definitive study of Paul Cézanne's life's work.

□ Local government elections in South Africa present President Nelson Mandela and the African National Congress with a critical test of their popularity. Voters will be asking whether the party has delivered on promises of jobs, housing and land redistribution.

■ 22nd-24th A global summit, potentially attended by as many as 185 heads of state or government, will mark the 50th birthday of the United Nations in New York. This special commemorative session of the General Assembly will be the culmination of a year-long programme of events. It is expected to adopt a declaration reaffirming the principles of the UN Charter and setting guidelines for the organisation's future work.

□ Nobel prizes to be announced.
□ Swiss general elections.
□ Inaugural Afro-Asian games due (after three delays) in Delhi.



Metric ahead

November

■ 6th-7th Confederation of British Industry holds its conference at Boumoum.

■ 9th -13th Commonwealth Summit in Auckland.

□ Apec meeting in Osaka: Asian and Pacific leaders will discuss free trade deadlines. Malaysia still wants its own Asian economic grouping which excludes, among others, the US. The big diplomatic questions will be: who is sent from Kuala Lumpur; and what shirts the leaders will be wearing for the photo call in Indonesia last year. It was batik shirts all round.

□ The German Buss-und-Bettag bank holiday - established as an opportunity for reflection and repentance - is abolished, except in Saxony. For most Germans, business as usual.

■ 18th Oman National Day: Sultan Qaboos will lead the national celebrations to mark the 25th anniversary of his



Sultan Qaboos: silver jubilee

accession to power. A party of massive proportions had been expected, to match that of 1985 when 5m multi-coloured bunting lit up the Muscat night, accompanied by laser shows, parades, fly-pasts, camel races and visiting heads of state. Top civil servants found an extra £100,000 in their pay packets. A similar extravaganza followed in 1990, but it may have been the last. With the international community taking a close interest in Oman's widening budget deficit, the scale of the Sultan's festivities this year should

be a reflection of the government's seriousness in bringing spending under control.

□ Presidential elections in Poland and Belgium.

□ General election in Belgium.

■ 21st The tercentenary of the death of Henry Purcell. A year marked by *King Arthur* at the Royal Opera House (May) and *The Fairy Queen* at the English National Opera (October) is crowned with a special event at Westminster Abbey, where Purcell worked for most of his life and was buried in 1695.

■ 22nd London's National Gallery is to show some of the great paintings held by the National Trust.

□ Poland's President Lech Walesa faces all-comers in an election for a second five-year term. The once legendary Solidarity leader's chances are less than even. He is grappling with a hostile parliament and will need to find his populist touch if he is to avoid having to seek employment elsewhere.

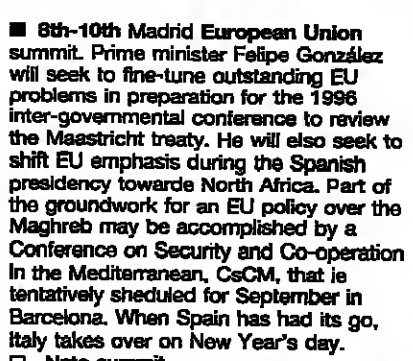
December

■ 8th-10th Madrid European Union summit. Prime minister Felipe González will seek to fine-tune outstanding EU problems in preparation for the 1996 inter-governmental conference to review the Maastricht treaty. He will also seek to shift EU emphasis during the Spanish presidency towards North Africa. Part of the groundwork for an EU policy over the Maghreb may be accomplished by a Conference on Security and Co-operation in the Mediterranean, CoSM, that is tentatively scheduled for September in Barcelona. When Spain has had its go, Italy takes over on New Year's day.

□ Nato summit.

■ Deadline for Nafta anti-dumping code.

■ 25th Christmas and the Japanese budget come but once a year. Ministerial bartering over the budget for the coming year is in its final days. The Ministry of Finance will again agonise over the nomenclature of its bonds - construction bonds, used to cover deficits, or deficit-covering bonds, used to cover



González: EU president - if he is still Spanish leader

deficits. The ministry prefers to issue the former.

■ 31st The long goodbye to Gatt finally comes to an end. The acronym goes onto the global marketplace, duty free.

MPs may investigate solvency of Lloyd's

By Ralph Atkins,
Insurance Correspondent

A House of Commons inquiry into the system of self-regulation at the Lloyd's of London insurance market, which many hard-hit Names blame for heavy losses in recent years, may also investigate the market's solvency.

that it would focus on regulatory control.

However, he added: "It is quite proper to ask a few questions about the solvency of Lloyd's."

The investigation, which is expected to be launched at the end of next month, comes at the start of a crucial year for Lloyd's.

Mr Peter Middleton, chief executive, and Mr David Rowland, chairman, are trying to forge a fresh out-of-court settlement to end litigation threatened by loss-making Names.

individuals whose assets have traditionally supported the insurance market.

Failure to reach a new settlement could hinder severely Lloyd's attempts at collecting money owed by Names, making it harder to pass government solvency tests.

Lloyd's next set of annual results are expected, under the insurance market's three-year accounting system, to show further losses incurred in 1992.

Sir Thomas said his committee would examine whether Lloyd's should continue to

police its membership, with the Department of Trade and Industry taking only arm's-length responsibility.

The committee is expected to take evidence from Mr Rowland, civil servants, ministers and groups representing Names.

An early submission from the Lloyd's Names Association's Working Party, an alliance of hard-hit Names, concludes: "Rarely can so many people have suffered as much damage as the regulatory failure at Lloyd's has caused."

The working party blames the regulatory failure in particular for the losses which were incurred on the so-called insurance "spiral" by which underwriters agreed to cover others against excessive losses from catastrophes.

Its submission also says that Lloyd's has failed in the past to set adequate minimum reserve levels or to maintain underwriting standards.

The working party also complains that the lack of proper information disclosure resulted in misrepresentation to Names.

British Gas may put meter-reading work out to contract

By Motoko Rich

British Gas, the former state utility, said yesterday that discussions were taking place about the possibility of contracting out its meter-reading service, raising service charges and beginning a fresh round of executive pay increases.

The company said: "It is no secret that we are looking at ways of making meter reading more efficient and the possibility of outsourcing is being looked at. But it is not yet a company policy."

It is understood that Group 4, the security organisation, is one of the companies being considered to run the meter-reading service.

British Gas added that no decision had been made on service charges or reported plans to award significant pay rises to the so-called "Above Group"

of senior company executives.

It said none of the reports was new and that they had come from an early draft of a document prepared by a working group consisting of representatives from British Gas, its corporate communications staff and external consultants.

The working group was set up to "address the issues that have arisen in recent weeks" and is reviewing a "number of presentations" from external consultants. A company official said: "Nothing has been agreed."

British Gas has aroused a storm of controversy in the past month with its pay and policy decisions. A 75 per cent pay rise for Mr Cedric Brown, the group's chief executive, combined with plans to cut wages and holidays for the company's lowest paid employees, caused a political row.

German cancellation is blow to reprocessing hopes Shadow over nuclear plant

Prospects for British Nuclear Fuels' controversial Thorp plant in north-west England have darkened with the sudden cancellation at the end of last month of two contracts from German nuclear power stations.

There were special reasons for the German pull-out, but the decision remains a serious blow as it underlines growing disenchantment in the nuclear power industry with the problems and costs associated with fuel reprocessing.

The cancellations come as the £2.5bn plant approaches the end of a start-up phase delayed by government indecision, environmental opposition and technical problems.

Thorp is one of only two facilities in the world which reprocess spent nuclear fuel (the other is Cogema in France). It separates spent fuel into uranium, plutonium, and waste products. When first conceived 20 years ago, Thorp

offered many advantages: uranium was scarce and plutonium had a high military value. Reprocessing also seemed to answer the problem of nuclear waste disposal. Utilities in Europe and the Far East were eager to sign contracts.

The economic case for Thorp was based on the 7000 tonnes of spent fuel it could reprocess in the first ten years. That case showed that the plant could pay back all its costs and make a profit. Much of the spent fuel covered by the contracts has already been shipped to the Thorp site in Cumbria.

Since then, BNFL has been seeking contracts for the second ten years, from 2004 to 2014. Until last month, it had sold 40 per cent of this capacity, giving Thorp a total order book worth £9bn. The two cancellations, totalling 450 tonnes, have reduced booked capacity to 23 per cent.

BNFL is putting a brave face on the loss of £380m (£362m) of

business. It will receive £100m in cancellation penalties. It also emphasises that the loss does not affect the economic case for Thorp.

But the German cancellations show that the tide may be turning against reprocessing. Uranium supplies have multiplied, and plutonium has lost its military appeal: in fact, it has become a massive environmental liability.

An alternative means of disposing of nuclear waste has become technically possible - and permitted by regulators. This is direct disposal in specially constructed stores where the fuel can "cool" for several decades before final disposal. The benefits of reprocessing are under question. Recent events suggest that, when nuclear utilities are offered an alternative, some will take it.

David Lascelles and Andrew Fisher

Burden of VAT rules 'outweighs advantages of customs-free trade'

By Jim Kelly,
Accountancy Correspondent

More than 40 per cent of UK businesses think the burden of meeting single European market value added tax regulations outweighs the advantages of customs-free trade.

A survey published yesterday by KPMG Peat Marwick, the accountancy firm, sought the views of 408 businesses

which have to deal with new tax rules introduced two years ago.

Before the single market, VAT was paid on imports at the point of entry. Now large companies have to report monthly on imports to the Customs and Excise Department.

Exports have continued to be zero-rated for VAT, but businesses have to provide a quarterly report summarising the

value of sales to each VAT-registered purchaser in the EU.

In spite of two years of using the new system, the survey found that 56 per cent of businesses felt the new reporting requirements were too onerous. Large businesses found them most onerous.

About a third of businesses engage in chain transactions in which goods are sold to an intermediary while delivery is

direct to the final customer. The rules were simplified for such cases in December 1992, but 44 per cent of the businesses questioned said this had made little difference.

Nearly a quarter of businesses said the new system had made deliveries to EU customers faster and 14 per cent said they were now slower. Nearly 40 per cent thought a single European currency

would benefit them. Mr George Michie, a partner at KPMG Tax Advisers, found the results "fairly encouraging" but said that "fundamental problems" existed. He called for simplification. Reporting requirements on imports were too complex and should be reformed. Businesses involved in complex chain transactions should be relieved of some burdens of compliance.

UK NEWS DIGEST

Murder case man dies in cell

Frederick West, who has been accused of 12 murders in his home city of Gloucester and nearby countryside, was found hanged in his prison cell yesterday, the Prison Service said. Officers at Winslow Green Prison in Birmingham discovered the body without success to revive him. Mr West had been in custody since April last year while his Gloucester home, under which the remains of several bodies were found, became world-famous.

News of Mr West's death spread swiftly in Gloucester, an historic city which is still attempting to come to terms with the unwanted publicity attaching to Britain's most macabre mass murder.

After the grisly discovery at the West home of the remains of nine young women including daughter Heather West, the three-storey house was bricked up and sealed off. A distinctive wrought-iron number sign, which appeared in photographs all over the world, was removed by police for safekeeping from souvenir hunters.

A Prison Service spokesman said: "He was found by staff who attempted to resuscitate him and a doctor certified death. News of Mr West's death was given to Gloucestershire police by the deputy-governor of the Birmingham prison. Inspector David Morgan said: "The circumstances are being reported to the coroner and will be investigated by West Midlands police."

Home secretary Michael Howard was criticised at the news of Frederick West's death. Opposition politicians attacked Mr Howard for yet another prison security lapse in the wake of the armed escape attempt at Wymondley prison in Cambridgeshire of five IRA men. Shadow Home Secretary Jack Straw called for a thorough inquiry into the West case.

Gloucester City council is mortgage-holder on the West's former home and some councillors favour its demolition.

Crackdown begins on job agency licensing

A new licensing system for employment agencies comes into effect tomorrow. The changes were introduced in the Deregulation and Contracting Out Act last year as the old system had not succeeded in weeding out unscrupulous businesses.

The legislation has introduced powers to order the closure of job agencies. Statutory minimum standards of conduct and the right of inspectors to investigate agencies will remain. The Department of Employment said the licensing provisions introduced in the Employment Agencies Act of 1973 were not helping to maintain standards in the industry.

Miss Ann Widdecombe, employment minister, said the licensing had been bureaucratic and difficult to justify. "Employment licensing did not establish a licensee's honesty or reliability for all time," she said. "Serious breaches of the statutory minimum standards of conduct for agencies have occurred, such as agencies charging fees to job seekers or breaching other statutory standards."

Two killed in fire at Highland ski resort

A man and woman were killed after fire broke out at a hotel in the Scottish Highlands during new year celebrations. The blaze began in a kitchen storeroom on the ground floor of the Four Seasons Hotel in the busy Aviemore ski resort.

Acid smoke quickly spread throughout the 90-bedroom eight-storey building from which guests were evacuated. Rescuers found a woman in distress in her fourth-floor bedroom and brought her out of the hotel by ladder, but she died on the way to the ambulance.

About 190 guests, including 32 children, many skiers and international guests hoping to sample a traditional Scottish Hogmanay were caught up in the drama.

Fire brigade units and a fleet of seven ambulances had difficulty getting to the blaze as heavy snow affected Highland roads.


Car-carrying trains to be dropped

The Motalorail service, which carries about 20,000 cars a year, will end on May 23, British Rail said yesterday. The loss of the long-established service, forcing more vehicles on the road, will anger environmental organisations. Motalorail operates "piggy-back" on sleeper services. Seven Motalorail trains each way connect London, Bristol and Scotland daily, except on Saturdays.


OFF THE ROAD: A man of 91 has cancelled his car insurance after 74 years of accident-free driving. Mr Richard Crosby of Ilkley, West Yorkshire - whose first car was a Model T Ford - said he was giving up because "there are too many young fools driving on the roads".

MILES AWAY: Cast-iron mileposts are being stolen from roads in North Yorkshire. The mileposts were put in place more than 100 years ago and many are classified as historic monuments. Highway officials say they are being sold at auctions and at back-street antiques fairs.

GROWING BACK: A classic country-house kitchen garden is to be restored at a cost of £500,000 (£780,000). The 5 ha garden, which had been abandoned for almost 50 years, used to supply fruit and vegetables to Tatton Park, an estate which is now owned by the National Trust. "When complete, it will make Tatton the most complete estate of its kind in the country," said head gardener Sam Youd. "Similar gardens at other big houses were turned into car parks when they were opened to the public."



FINANCIAL TIMES
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INTERCONNECTION - THE EVOLVING UK PROGRAMME AND ITS INTERNATIONAL CONTEXT

The London Hilton Hotel on Park Lane - 8 February 1995

The Financial Times and OFFTEL have joined forces to arrange a conference on interconnection, focusing on the critical nuts and bolts of the competitive telecommunications regime as it goes into its second decade.

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Directorate-General XIII
European Commission

COMPETITION IN INTERNATIONAL TELECOMMUNICATIONS - THE UK'S PERSPECTIVE AND POLICY
Mr William Macintyre
Head of Telecommunications Division
Department of Trade and Industry

INTERCONNECTION AND A GLOBAL INFORMATION INFRASTRUCTURE (GII)
Mr Scott B Harris
Bureau Chief, International Bureau
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THE SWEDISH APPROACH TO INTERCONNECTION
Mr Jan Freese
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IN THE FORESTS OF PAKISTAN, THE AXE IS MORE DANGEROUS THAN THE GUN.

In the Sulaiman mountains of Pakistan, conservationists find a wedding is no cause for celebration.

It's a tradition that the bridegroom must first cut down 125 children's trees to raise enough money to provide a payment to the bride's parents. This year, 40 men want to get married and they don't intend to let 5,000 trees stand in their way.

The real price, however, is paid much later. The forests protect the soil and water of wildlife feeding grounds. They provide a vital watershed for the local rivers. Without the trees, water from torrential rain funnels down valleys, smashing houses and bursting river banks.

The consequences are no less ruinous for the local economy. Mature trees offer a rich harvest of nuts and oils that earn vital rupees in the markets of Karachi, Lahore, Quetta, Peshawar, and Islamabad.

So what can be done to protect them?

Lobby the government? What if there is no government? In this part of Baluchistan, the only law is the law of the gun.

Some 15 warring tribes own 70% of the forests.

Into this troubled land walked the local WWF organiser. At

their first meeting the tribesmen still had their rifles slung across their shoulders. They listened as the WWF representative explained that the forests were their future. That reforestation was possible. That they could profit from sustainable development of nuts, berries and fruit.

"Hawk-eyed and tough looking," they may have been. But he met with success. Based on a WWF feasibility study, an agreement was reached to limit the cutting down of trees.

This, however, is not the end of the story. Merely the beginning. The education programme goes on. More efficient uses of fuel wood and alternative energy sources are needed.


And not just here.

This is just one of over one hundred WWF forest projects in forty five different countries.

Of course, this costs money. If you want to help, you can make a donation or a legacy to WWF's work.

Armed with that, we can achieve anything.

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 WWF

MANAGEMENT

Rise, fall and climb of a giant

Alan Jackson, chief executive of BTR, hosted a dinner for 200 of the conglomerate's top managers just before Christmas at which he told them not to believe the knockers in the press and the City. BTR could still look forward to the future with confidence.

That Jackson should feel the need to voice such confidence is testimony to the vast change in the group's public image over the past year. All companies, even those as reliable as BTR, go in and out of City favour. But BTR's fall from grace has been dramatic. Since summer 1993 the shares have lost a quarter of their value as investors' confidence has taken a battering.

What makes this even more unnerving is that one of the new "weaknesses" identified by critics has always been viewed as a key strength: management. The City suddenly started to ask whether BTR had the right management structure, the right management style, or indeed the right managers. There were other worries too: were BTR's fat margins sustainable in a low-inflation world? Could it still make big acquisitions that pay off now that accounting rules have been tightened? Together these made a powerful brew which BTR's minimalist approach to investor relations did little to antidote.

Things came to a head in September when the announcement of an unexpected fall in the company's margins sent the shares down 12 per cent in a day.

BTR insists that the fears about its margins were overdone and that there is no lack of acquisition opportunities. But looking back it agrees with its critics that its presentation could have been better and that some of the concerns about management were justified. The question is whether they are on the mend.

BTR entered the 1990s as one of the UK's most respected companies. The winner of countless business awards it was no longer lunched with acquisitive conglomerates like Hanson, which were rapidly going out of fashion, but was seen as a model of modern industrial management.

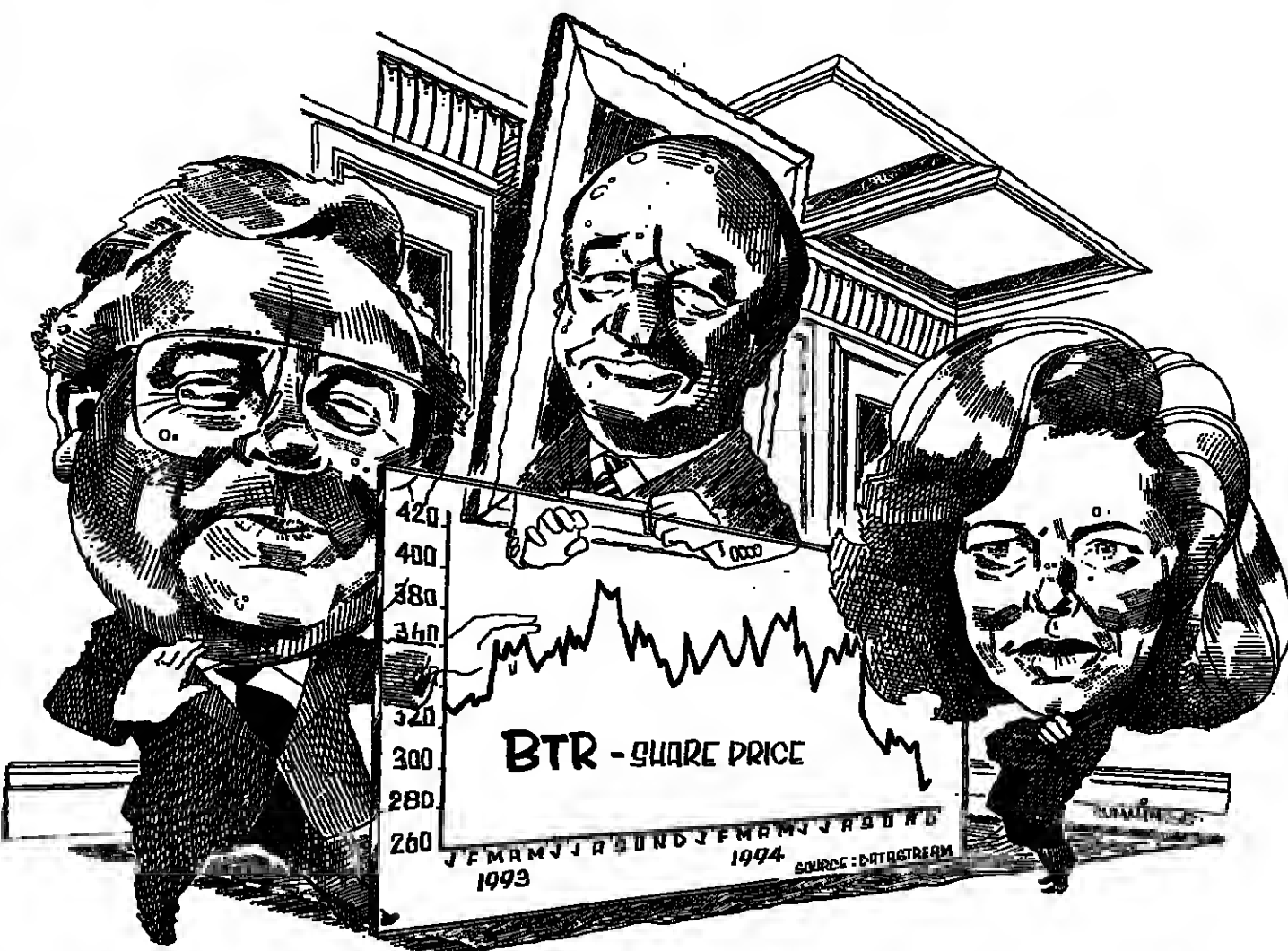
Unlike Hanson, it had come through the recession with barely a hiccup in profits and no pause in dividend growth. It had also negotiated the tricky handover from the founding generation, with its chief architect Sir Owen Green finally retiring as chairman in 1993.

Yet suddenly the City began to be plagued by doubts. One nagging worry was who would succeed Alan Jackson, the 58-year-old Australian chief executive, and the chairman, Norman Ireland, who is 67. In a way this was odd since, over the years, BTR has shown a consistent ability to give its own top executives. It has rarely needed, or wanted, to look outside.

Yet BTR's famously flat management structure makes the line of succession difficult to discern. BTR has hundreds of operating units whose managers have considerable autonomy within the strict confines of their agreed budgets.

Above them the management tree

BTR's public image has taken a battering recently, but it now believes it can look forward to the future with confidence, says David Wighton



things out fast and, for a £10bn company, the head office is remarkably bare. Of the few managers at the top of the tree, even fewer are exposed in public.

Many of BTR's institutional shareholders believe the reluctance to put more top executives in front of the City has been an important mistake. "It means the market worries about what happens if Jackson is run over by a bus and overreacts when one of the few people they do know about leaves," says one leading shareholder.

Considering BTR's reputation as a management training ground, it has lost very few top executives. But those who do depart appear to leave large holes.

Last year's departure of Roberto Quarta, then 44, was seen as a severe blow to BTR. A dynamic and charismatic Italian-American, Quarta was viewed as a strong contender for the top job having joined the main board eight months before.

"Quarta is good, very good, and his move was a big shock both inside and outside the company," says one former BTR executive.

While dismissing the idea that Quarta was earmarked for succession Jackson agrees that his was a bad loss. He believes one factor

behind Quarta's move was that BTR, which is only slowly shaking off the puritan traditions of its founding fathers, had fallen behind in the executive pay race. "Compensation is one thing we must look at."

But he strenuously denies that the latest departure, the retirement of chief operating officer Bob Faircloth, is anything to worry about.

"Bob came over from America in 1988 to spend three years in Europe. I talked him into staying in the newly created chief operating officer post for another three years but he always planned to retire early."

Jackson insists that Faircloth, who is the same age, was never expected to become chief executive or chairman and that scrapping the post of chief operating officer, created specifically to deal with the Hawker Siddeley acquisition, will bring benefits. Investors have been unsettled nevertheless.

"We believe that Jackson has too much to do already and doing away with the chief operating officer will only make matters worse," says one of BTR's highest investors. Few close observers doubt the ability of Jackson or of Kathleen O'Donovan, the 36-year-old finance director, but many believe they take on too much.

One fund manager points out that

BTR's large Australian subsidiary Nyx has just appointed a new managing director, who will look after strategy and acquisitions, with the current incumbent responsible solely for operations. "If splitting the top job is right for Nyx, why is it wrong for BTR," he asks.

Former BTR managers also question the move. One states: "Bob performed some important complementary functions particularly in terms of cultivating management talent. He was much more accessible than Alan Jackson, who is always on a plane to America, Australia or China."

Jackson argues that cutting out the chief operating officer role will improve internal and external communications. He is eager to revert to BTR's traditional structure where the regional managers report directly to the chief executive. Sensitivity to investors' pleas to see more faces, he also promises to give the regional chief executives greater opportunity to present their operations, a role formerly filled by Faircloth.

Ireland insists that the change will give more responsibility to Chris Burns, Paul Buysse and John Thompson, who joined the board in September, and adds that the Australian appointment will reduce

Jackson's commitment there. While the recent promotions to the board were described as "very significant", Ireland believes that as Jackson will not retire until 1996, it would be wrong to be more specific about his successor. But at least it should douse speculation this time that O'Donovan is being groomed for the top job.

Behind the worries about succession lies a more fundamental concern about BTR's management structure. "The problem with the structure is that it does not encourage the development of managers with the breadth of vision needed at the top," argues one former senior executive.

"Between the operational guys and the top there are people in the middle who are essentially post-men. The individual units have great autonomy within budgets set at the top. This makes it difficult, and not particularly rewarding, to work your way up the rungs." The autonomy of the individual units has other implications, too. It has meant there has been relatively little co-operation between, for example, a subsidiary making industrial belting in Australia and another making similar products in the US.

"Historically, the only glue bind-

ing BTR businesses together were financial controls," says one analyst.

Jackson freely admits there was something in these criticisms but insists that they have been addressed.

In the three years since he was appointed managing director he has attempted to build worldwide businesses in its core product areas, filling gaps with acquisitions and transferring technology between different units.

Jackson's supporters believe the changes he has made to the group tend to be underplayed. One analyst comments: "The changes have been quite significant but he has to be careful not to appear to criticise Sir Owen who is held in very high regard."

Sir Owen is also a maverick with some strongly-held views on management and corporate governance. He once described "focus" as "the crutch for average management", yet Jackson has tried to bring greater focus to BTR by, for example, selling off its distribution businesses.

Sir Owen is also renowned for his opposition to external non-executive directors, the cornerstone of the new corporate governance orthodoxy, preferring to put former BTR executives on the board.

But in a little noticed break with tradition, Nyx appointed its first external director earlier this year, and close observers believe its parent will follow suit before long.

Ireland, a former BTR finance director who shares Sir Owen's doubts about Cadbury-style non-executives, admits that the issue is being reviewed following the share price fall. "We still believe that BTR needs directors who understand our very complex business. But we are not that bigoted and are reviewing the subject again."

Such a move would be welcomed by many institutions which believe advice from directors not steeped in BTR's culture might have prevented some of the upsets of the past 18 months. "It might just have stopped them giving the markets such contradictory signals," says one fund manager.

With hindsight BTR advisers admit that the trading statement given at last year's annual meeting was probably too upbeat and the warning about margins with the interim figures too alarmist.

The warning was designed partly to persuade some analysts to reduce their forecasts but the code was misinterpreted. BTR is scrupulous about not giving analysts private guidance and accuses some of deliberately setting high forecasts to generate business when they downgrade.

Ireland believes that apart from some mistakes in presentation, which have been rectified, there is little more the company can or needs to do to restore confidence. "If we don't produce the results, we deserve what we are getting. If we do, I hope we will get some forgiveness."

But, as he points out, there has been little wrong with its results. It seems that the old BTR adage that "the results speak for themselves" no longer holds true.

PIONEERS AND PROPHETS

W. Edwards Deming

The first 80 or so years of Deming's life were a vivid illustration of the saying that a prophet is not without honour, save in his own country.

Reputed to have been the most revered American in Japan in the 1950s after General MacArthur, he did not establish a reputation in the US until 1980 when NBC television broadcast a documentary entitled "If Japan Can, Why Can't We?". Almost overnight he became a celebrity and the "quality" ideas which he first developed after the second world war became fully implanted in the west.

Before Deming, quality was regarded as a matter of inspection and of correcting discovered faults rather than of managing the production process to eliminate them.

Strongly influenced by Deming and Joseph Juran - who both gave lectures in the early 1950s - the Japanese took this latter idea and used it with devastating effect to build world-class industries in products such as copiers, cameras and cars.

William E Conway, president and later CEO of the Nashua Corporation, was one of the first Americans to hire Deming. He only agreed to help, though, on condition that Conway became the "change leader" for a programme which ultimately achieved astonishing improvements in test times and customer claims. When Deming died last year, aged 92, Ford (an early convert), AT&T, Kimberly-Clark and Procter & Gamble were among the big corporations which had reason to feel grateful for his support.

Deming's statistical quality control principles were first worked out in the 1920s by Walter Shewhart, a Bell Laboratories physicist, at Western Electric's Hawthorne plant in Chicago (also the scene of Elton Mayo's studies into motivation and the employee-management relations).

Deming claimed only 15 per cent of production faults could be blamed on employees, the rest were down to management. His now-famous "14 points" - which also focused on currently fashionable issues such as leadership and training - were developed over 20 years. At the heart of his philosophy - and that of Total Quality Management (TQM) - is the idea of the customer as the most important part of the production line. "What about the effects of an unhappy customer? Is that in your figures? Did you learn that in your school of finance," he asked in a lecture at Utah State University School of Business in 1983. He sharply criticised the sort of management that always "wants figures, more products and never mind the quality".

Sir John Egan, who applied Deming principles in turning round Jaguar Cars in the early 1980s, wrote of the guru's 1986 book *Out of the Crisis* that it was "required reading for every chief executive in British industry who is serious about ensuring the international competitiveness of his company".

Deming, who gave his name to a prize which is competed for annually by Japanese companies, said that if he had to reduce his message to just a few words, "I'd say it all had to do with reducing variation".

Tim Dickson

New line of attack in Great Soap War

The Great Soap War between Unilever and Procter & Gamble is not their only worry. Hard on its heels, a complaint about them has been made to the UK's Office of Fair Trading (OFT) by a London-based campaigning organisation, the Women's Environmental Network (WEN), which has not pulled its punches.

The Great Soap War started last March following Unilever's launch in Britain of an innovative fabric detergent, Persil Power, which contains manganese, a catalyst that can boost a detergent's effectiveness. But it also attacks fabrics. Not a bright move.

Yet Unilever and P&G will have more than the Soap War's aftermath to worry about if the complaint to the OFT by WEN results in them being referred to the Monopolies and Mergers Commission for alleged restrictive trade practices within the UK detergents market.

The OFT investigated this market

as recently as 1992. It did not see a need to refer it to the Monopolies Commission, though its then director-general, Sir Bryan Carsberg, said he would remain on the look-out for evidence of exploitation of market power by Lever Brothers (part of Unilever) and P&G.

However, the new complaint to the OFT says there has been an "alarming increase" in advertising and promotional spending on detergents by the two companies since then. As a result, their effective stranglehold is now "far worse" than in 1992 or in 1986, when the Monopolies Commission, after an investigation, called for big reductions in wholesale prices of detergents - and in selling expenses.

WEN has reported P&G and Unilever to the OFT for alleged trade practices that have led to "higher prices for consumers, the creation of a barrier to entry for other companies, and a restriction of product varieties and environmental improvements."

Doubtless, the two companies will

MICHAEL THOMPSON-NOEL



have much to say when they have prepared full responses, but so may the OFT.

In a summary of its case, WEN claims that the "hilarious level of overkill in advertising has for many years served only to maintain the [companies'] duopoly, and to induce consumers to over-consume, over-wash and over-spend."

P&G and Unilever, it says, are Britain's first and second heaviest advertisers, with an estimated combined above-the-line spend of nearly \$3m on washing powders and liquids in 1994. P&G owns four of the UK's top seven laundry detergent brands (Ariel, Bold, Daz, Fairy), and

Unilever the other three (Persil, Radon, Surf). Together, says WEN, these account for nearly 90 per cent of sales and almost all the sector's advertising spending.

Overall, the increase in ad spend over the last 10 years has greatly exceeded the increase in sales, says WEN. The companies' total advertising and promotional support of these brands is estimated by WEN to have cost more than £100m in 1994 - something like 72p on average per 2-kilo packet of washing powder bought, or 5p per single wash. Astonishing.

P&G and Unilever, WEN claims, have "substituted advertising for

price competition". Further, a big part of this spending goes on pitting one commonly owned brand against another. Daz and Ariel, for instance, are thrown against each other, both claiming to wash better or whiter. In fact, both are owned by P&G.

"The result of this extraordinarily excessive spend is that consumers are paying large sums of money for advertising which serves them no real purpose."

"In most other European countries, there exist at least three major players, including Henkel, together with some minority players. With a huge market like the UK, it is clear that these other companies cannot possibly enter the market due to the unthinkable sums they would have to spend to achieve any substantial market share."

There are other charges against Unilever and P&G in WEN's closely-reasoned complaint to the OFT - for example, that they are producing "different" brands with near-identical ingredients and product

functions. This misleads consumers, who assume that real competition and diversity of choice exist.

Lever denies WEN's claim that since 1992 it has upped its ad spend and passed the cost on to consumers. Curiously, however, it does not argue with the estimates for 1994, either for advertising expenditure or for the grand promotional total.

"Across the broad range of washing powders," it says, "prices to consumers have either risen very slightly or have actually fallen compared to two years ago... At the same time it must be recognised that Lever will continue to support its brands through advertising... Ultimately, Lever does not set the price of detergents in-store, and in today's competitive environment it could pay to shop around." It says there is fierce competition on the pricing of detergents, which can only benefit consumers.

Whatever Unilever and P&G say, I would not, for now, want to be chairman - or even doorman - of either company.

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The Financial Times plans to publish a survey on Housing Associations

on Wednesday, February 15

The topics covered within this survey will include:

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- The Housing Corporation and its regulatory role
- How the house builders view future potential
- An examination of corporate governance
- The growth in quality of associations' management teams and how they function

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Noise over Hong Kong
After spending a night in a hotel near Hong Kong's airport at the weekend, the country's top aviation official said it was not just the noise from overhead aircraft that kept him awake. Peter Lok, director of civil aviation, said he could not sleep mainly because of the road traffic. He spent the night in a hotel near the airport, which is about 300,000 Kowloon. City residents objected to his plan to increase early morning and night-time flights at Kai Tak airport because of excessive noise from the flight paths over Hong Kong, US\$50m a year. The government is also building a new airport on an offshore island, due for completion in 1997.

US flight discounts
In the US, USAir and Northwest Airlines have said they are matching the discounted fares already announced by Continental Airlines. Continental's programme starts January 5 and ends May 23. The discounts apply to seven-day advance-purchase fares and vary from 40 per cent off Cleveland-Denver flights to 8 per cent reductions for Los Angeles-Newark. A USAir spokesman said its discounts would apply to "hundreds of markets", more than Continental's.

mainly involving travel up and down the US east coast. Northwest said it was matching the cuts in competitive markets. Southwest Airlines is also offering reduced fares from selected cities for travel from January 4 to March 15. Its seven-day advance-purchase fares will be an extension of current discounts on travel from Chicago, St Louis, Baltimore, Cleveland and Salt Lake City, and will include, for the first time, Kansas City, Indianapolis, Louisville and Columbus. Southwest said its discounted one-way fares will range from \$19 to \$99.

Asian earthquakes
Fifty people were injured in an earthquake with a preliminary magnitude of 6.1 off the coast of southern China, while a moderate earthquake put at magnitude 4.6 shook Tokyo, both at the weekend. Epicentre of the Chinese earthquake was about 95 miles north-west of the coastal city of Haikou on Hainan Island. No deaths were reported. The Royal Hong Kong Observatory said some colony residents felt the tremor. There were no reports of damage or injury from yesterday's earthquake centred 50 miles beneath Tokyo Bay, authorities said. Last week an earthquake 390 miles north-east of Tokyo killed two people and injured 233.

Drivers' protest
Belgian truck drivers protesting against an environmental road tax suspended traffic blockades for the holiday weekend, but said the protests would continue this week. The Walloon regional UPTB road transport federation is leading the protests. UPTB wants the tax, which takes effect this month and is also being introduced in Luxembourg, the Netherlands, Germany and Denmark, to be delayed by six months, and for the government to offer full compensation.

Likely weather in the leading business centres

	Mon	Tue	Wed	Thur	Fri
Tokyo	10	14	11	10	9
Hong Kong	23	23	20	21	20
London	3	4	5	7	7
Frankfurt	3	2	-1	0	-1
New York	8	-1	-4	-6	-3
Los Angeles	15	16	19	18	17
Milan	9	6	3	4	4
Paris	3	2	1	4	7
Zurich	3	0	-4	1	8

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Smart Guide: Toronto

Eat at the muffin stand

What is the best part of town to stay in?

That depends where your appointments are. Most business visitors stay either downtown or about a mile north, in the Yorkville shopping area. But many companies have moved out to dormitory towns such as Mississauga, Markham and Ajax. Adequate but sterile hotels have sprung up in these outlying areas.

Hotels? Toronto's most elegant - and pricey - hotels are the King Edward (downtown) and the Four Seasons (Yorkville). The Sheraton, Hilton, Intercontinental (Yorkville), Marriott and Novotel are all comfortable and convenient. The Westin Harbour Castle has fine views over Lake Ontario, but is a 10-minute walk (or a short tram ride) from the financial district.

What about restaurants? A flood of immigrants has given Toronto an endless variety of ethnic restaurants. The Bangkok Garden is the best - but most expensive - Thai restaurant. An array of less formal places (Japanese to Croatian to Italian and everything in between) dots King Street West and Queen Street West, between Simcoe and Peter Streets.

Popular business-lunch spots include the somewhat noisy Jump Café and Bar, in Commerce Court East, and Acqua, which faces the cathedral-like atrium of BCE Place. The dining room at the Hotel Victoria serves fairly and reasonably priced lunches. A few blocks east, La Maguette has a bright, glass-enclosed dining area.

For something a little different, try Alice Fazio's Italian Crab Shack and

Saloon, a converted warehouse on the north-west fringe of downtown.

Breakfast in most hotels is a rip-off. Unless you're an egg-and-bacon person, the muffin-and-coffee stands in the underground shopping malls make a good, cheap alternative. Best spots for a business breakfast are Café Victoria at the King Edward and the Prince Arthur Room at the Park Plaza (Yorkville).

Is there much entertainment? Take your pick. The most popular show in town right now is a lavish production of *Shogun*. *Phantom of the Opera*, *Miss Saigon* and *Crazy for You* have settled in for long runs. At *Phantom* you can see the splendidly restored Pantages theatre.

An array of live theatre companies caters to almost every taste. The Canadian Opera Company is based in Toronto, and the Toronto Symphony, under its new Finnish musical director, Jukka-Pekka Saraste, performs at Roy Thomson Hall.

Sports bars, where entertainment consists mainly of giant TV sets tuned to baseball, hockey or basketball, are popular among 20 to 30-year-olds. A cluster of them is located near the SkyDome, the sports stadium with the bulbous roof.

What are the local quirks? Be warned: Canadians eat early. Lunch starts between noon and 12.30. A business dinner typically starts at 6.30 or 7pm. You are likely to be back in your hotel room in time for the main TV news at 10pm.

A trip to Toronto between December and March can be a miserable - and possibly dangerous - experience without suitable winter clothing.

Gloves, hat, warm coat and overshoes or boots are essential.

How do I get around? Toronto is not New York. Walking is safe at any time of day or night. So is the efficient and clean subway system. If all your business is near the city centre, stick to taxis and subway, but hire a car for trips to the suburbs: cab fares are steeper than in the US.

What if I have a spare day? The McMichael Canadian Art Collection, less than an hour's drive north of the city in the village of Kleinburg, is set in a 100-acre wooded estate. The views from strategically placed windows in the galleries are as arresting as the paintings of Canada's Group of Seven landscape artists, and the extensive Inuit art collection.

Downhill and cross-country skiing is available at numerous places within a 90-minute drive. Horseshoe Valley is one (sometimes crowded) resort which offers both, as well as equipment rentals. Ask your business associates if they belong to a club with private slopes.

Sports fans and engineering buffs may be intrigued by the SkyDome, the 52,000-seat stadium with a retractable roof. Tours, which are more interesting than they sound, take place throughout the day. Bank of Montreal's former head office in the financial district has been converted into the Ice Hockey Hall of Fame. But don't book for a hockey game. Team owners looked out the players in September, and the first puck of the season has yet to be dropped.

Bernard Simon



Toronto skyline: the intriguing SkyDome next to the CN Tower. Picture: Gyn Gyn

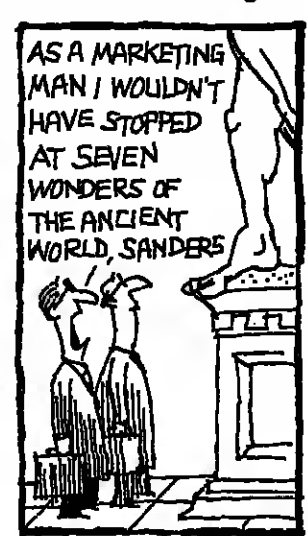
An hour to spare: Berlin

Glimpse of Greek art from Turkey

You are in Berlin, with an hour between meetings. What to do? Berlin's greatest art treasure is one of the seven wonders of the ancient world - and one that the modern town council of Bergama in Turkey demanded back in 1986. Buffs may denounce the Altar of Zeus, built by the Greeks at Pergamon in west Turkey in 180-160 BC, as late and debased; but its colossal frieze of gods and giants locked in battle is an impressive sight.

Far less celebrated but no less remarkable is the portion of Nebuchadnezzar's Babylon, which has also found its way to the Pergamon Museum on Berlin's Museuminsel. Magnificent roaring lions, carved in brick-relief and glazed with coloured enamels, prowl along either side of the processional way built by Nebuchadnezzar II around 600 BC. Set in their frieze against a vivid blue, and bordered by rosettes and bands of black, white and ochre, the lions are symbols of the goddess Ishtar, adored in Babylon as ruler of the sky, goddess of love and patroness of the army.

The northern gate of the inner wall of the citadel, the Ishtar Gate, is also partially reconstructed in Berlin (as is the throne room from the south palace). Again built of glazed, kiln-baked bricks, it is



decorated with alternating rows of bulls - the holy beasts of the weather god Adad - and dragons, the scaled, proud-tailed and elegant symbols of the city god, Marduk. As Nebuchadnezzar's inscription records: "I set up wild bulls and furious dragons in front of the gates and this magnificently adorned them with luxurious splendour for all mankind to look at in surprise." We do.

Susan Moore

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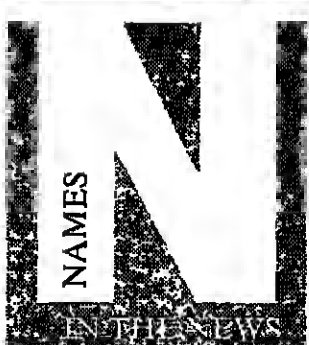
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O'Brien steps up at Canadian Pacific

David O'Brien is not short on ties to Canadian Pacific, writes Nikki Tait. As the only son of Kerry Packer, Australia's richest businessman, he has been pushed to the fore in his father's battle to develop Sydney's new \$180m-plus casino, which is regarded as the plum in Australia's fast-growing casino industry. The fight is being seen as the first real test of whether Jamie, 27, has inherited the business skills of his 57-year-old father or his grandfather, the late Sir Frank Packer. It is young Jamie's first fight with the big boys. Having been outbid for the rights to develop the casino earlier this year, Packer is having considerable trouble wrestling the coveted prize back from the victor, a consortium of the US's Showboat and Leighton Holdings. A public inquiry concluded in mid-December that Leighton, an Australian construction group, was an unsuitable casino operator. But the Casino Control Authority immediately accepted an arrangement whereby Leighton was quarantined from the property's management.

By the time Packer's consortium had lodged a legal action objecting to this, the up-front fee had changed hands and the licence had been formally awarded. However, the Packers are not accepting defeat and their lawyers continue to pursue their claim. Jamie has been working in his father's empire since the mid-1980s, and went on the board two years ago. He was thrust into the front line for the first time after the Sydney casino venture blew up when his father was abroad.

He seems to enjoy the attention, and even gave an extensive interview, a true break with family tradition. This revealed a fairly

Packer jr packs a punch

The chips are down for young Jamie Packer, writes Nikki Tait. As the only son of Kerry Packer, Australia's richest businessman, he has been pushed to the fore in his father's battle to develop Sydney's new \$180m-plus casino, which is regarded as the plum in Australia's fast-growing casino industry. The fight is being seen as the first real test of whether Jamie, 27, has inherited the business skills of his 57-year-old father or his grandfather, the late Sir Frank Packer. It is young Jamie's first fight with the big boys. Having been outbid for the rights to develop the casino earlier this year, Packer is having considerable trouble wrestling the coveted prize back from the victor, a consortium of the US's Showboat and Leighton Holdings. A public inquiry concluded in mid-December that Leighton, an Australian construction group, was an unsuitable casino operator. But the Casino Control Authority immediately accepted an arrangement whereby Leighton was quarantined from the property's management.

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He seems to enjoy the attention, and even gave an extensive interview, a true break with family tradition. This revealed a fairly

Choi lights up London

Samsung, the Korean industrial group, has appointed Sung-Rai Choi as president and chief executive of the group's European operations, which are to be headquartered in London, writes Paul Taylor. The European headquarters staff in London is expected to grow to around 500 by the end of the decade, and Choi, 50, will oversee Samsung's rapidly expanding manufacturing and trading operations in Europe. In October, Samsung announced plans to build a \$450m electronics complex at Weybridge, Cleveland, and the Korean group is also considering setting up another UK plant to assemble excavators and other heavy equipment.

Choi says the new plants, and the decision to site its European headquarters in London, underline the Korean group's determination to establish itself as both a British, and European, manufacturer of electronic and other equipment.

Before arriving in London last month, Choi was general manager for corporate planning for Samsung Heavy Industries. His career with Samsung started in 1977 when he joined the group's international trading arm. He was Samsung's branch manager in Nigeria for five years at the end of the 1970s. Then he moved to Paris, where he was branch manager until 1993.

Just before Christmas, Choi marked the establishment of Samsung's European headquarters by switching on a big neon sign in London's Piccadilly Circus.

The Korean group plans to spend £10m over the next seven years on the neon sign, which will be the first in London to display the news as it breaks.

ARCHITECTURE

Listen to the people

Colin Amery gives his advice for the future of architecture

Are the mid-1990s going to be a kind of action replay of the early 1980s, with a UK building boom, full employment for the architectural profession and soaring property values just ahead of an election? Will there be a surge of architectural competitions to spend the money raised through the national lottery?

Whatever is in store, the architectural profession is already coping with a terrible sense of déjà-vu, for the election of a new president of the Royal Institute of British Architects at the end of last year produced a very strange result. Owen Luder, who had previously been president in 1981, surprisingly won again against young Etonian Robin Nicholson, a talented designer and thoughtful architect from the London firm of Edward Cullinan and Partners.

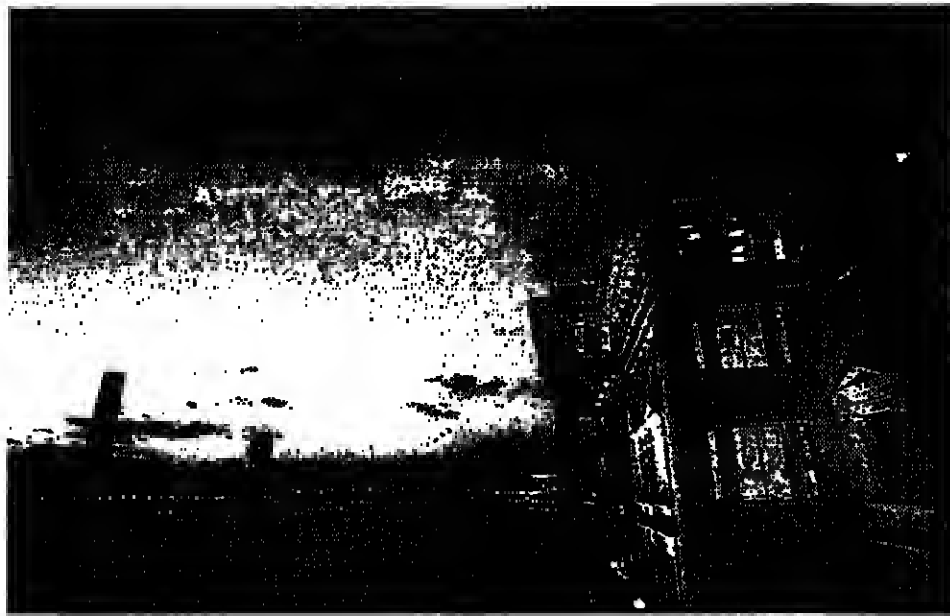
Luder represented the small-time businessmen architects against the suave Londoners who had not noticed that the profession is, in Luder's words, "on the brink of terminal decline." He does not pretend to be an interesting designer. Indeed, some of his ghastly 1970s shopping centres have been condemned as the ugliest buildings of their era.

His Southgate shopping centre, in Bath, provoked intense opposition and started the sack of parts of that city. I wonder if he has mellowed in the last decade.

He changed the nature of architectural debate when he was first president by reacting to one of his milder articles by saying that he would like to kick me "in the bloody shin."

Some of the architectural profession now have a doughty fighter to defend them. Luder's view that the big guns of architecture do not need to be defended or promoted by the RIBA is probably right. Towards the end of last year there was an example of the way architects can promote themselves and their own work when the Royal National Theatre to London's South Bank announced plans to improve its public entrance and remove one of the concrete walkways.

This new design is by the young firm of Stanton Williams. Sir Denys Lasdun



Much architectural attention in London will be on developments along the Thames

showed his impressive lobbying powers - and also his arrogance - when he said that touching his building would be like "removing the pediment from St Paul's." No such outcry occurred when Sir Richard Rogers proposed a kind of glass roller-coaster to cover up the sins of the Hayward Gallery and the Queen Elizabeth Hall.

The best new buildings of 1994 may not be the listed buildings of tomorrow, especially as the secretary of state for national heritage, Stephen Dorrell, is re-examining the question of listing of post-war buildings.

Undoubtedly the architectural and fund-raising triumph of the year was the new Glyndebourne Opera House, designed by Michael and Patty Hopkins, and paid for entirely by private donations.

Nicholas Grimshaw's Waterloo terminal for the Eurostar rail service through the Channel Tunnel was voted building of the year, and on the other side of the Channel the extraordinary Hotel du Département for Marcellus was opened, designed by British architect Will Alsop. Channel 4 Television moved into its Richard Rogers-designed headquarters in Westminster, and an inspiring firm Future Systems built its first house - inevitably in Islington.

It was not so much the built buildings that attracted attention last year as the aspiring creations of numerous architects entering competitions to win funds and backing from the main cultural distributors of lottery money - the Arts Council, the National Heritage Memorial Fund and the Millennium Commission.

No one has yet evolved a good way of ensuring that the new or converted buildings that get the lottery go-ahead will be of any architectural quality. So the real question for 1995 is this: how can so much patronage be administered by so few unqualified and randomly-appointed quangos? Inevitably, friends of friends, favourites and the strange world of the architectural mafia will control events. Competitions do not help, as they are controlled by their juries and the public have scarcely any say.

One way of broadening the debate would be to spend some of the lottery money on the gradual education of the public about architecture. My view is that you underestimate public opinion at your peril. People outside the profession have ideas that deserve respect, and, as the lottery money is their money (our money), much more consultation is needed.

Publications and television can help, and architects should learn to ask questions and think a little more about what their clients want. The competition system, which always seems like fun at first, does not deliver.

The Tate Gallery, for example, is already backing down in its competition for the conversion of Bankside power station near London's Southwark Bridge into a museum of contemporary art. "We are looking for an architect, not a design," they cry - at one blow destroying the integrity of the competition process.

Much more guidance is needed on how to commission new buildings, and a public consensus is required about the kind of country we want to live in after 2000. If, as few architects do, you speak to people who are not architects, you will discover national concern about low standards of house design and the concrete detritus of the 1960s that still blights so many housing estates and town centres; and an overwhelming anxiety about the survival of the countryside.

Listen to the people of England, all you quangos. Their vision is not your vision. They have an acute and subtle sense of place.

MEDIA FUTURES

Musical moneyspinner

Alice Rawsthorn reports on a more business-like digital jukebox

It is early - well, not very early - in the morning and Ricky Adar is feeling rough.

He was out drinking the night before and ran into a bunch of cyber-buffs who, like him and his colleagues at Cerberus Sound & Vision, were interested in pumping out music on the Internet.

"We had a bit of a row," he says. "They were hippies who just flooded the Net with music. They laid into us because they said we weren't really into technology, but into product."

Well, that's wrong with that. So far, the world of digital music has been occupied by people who, unlike Ricky Adar, think that "product" is a dirty word. Digital music, like so many other aspects of the Internet, has been dominated by anarchists who are interested in working with technology for its own sake, not as a way of making money.

But the Internet is changing. Whether the cyber-buffs like it or not, and Ricky Adar is one of the new wave of would-be

entrepreneurs who see the Internet as a commercial distribution system rather than a playground for cyber-punks.

Adar, 28, is a former engineer and record producer who founded Cerberus to launch a digital jukebox - a "virtual record shop," he calls it - that will enable music fans to log on to its database of over 100 songs through the Internet.

They will choose which piece of music they want to hear and pay for it by credit card. The music will be downloaded on to their computer within 10 or 15 minutes. Then they can play it back.

Cerberus will run the service from its tiny office in Denmark Street in London (known as Tin Pan Alley in the 1960s, when it was the home of Britain's music-publishing trade), from a standard Compaq personal computer and a piece of its own compression software that ensures, says Adar, that the sound quality is akin to that of compact discs.

Dozens of digital jukeboxes

are already in operation from the UK. Some charge the people who use them. Most do not. A few have approached the various music industry authorities about licensing their operations and paying royalties to record companies, musicians, composers and music publishers. So far, none has received licenses, and are thus operating illegally.

The problem is that existing music copyright law does not accommodate digital forms of distribution. This means there is no set formula for calculating the basis on which royalties will be paid.

The major record companies, many of which already use the Internet as a promotional medium, plan to push for the necessary legislative reforms. Once legislation is in place, some will develop their own digital distribution systems as an alternative way of selling music.

Cerberus falls between two camps - the pirates and the establishment. It is waiting to

go on-line until it has been approved by the authorities, although last month it received the blessing of the Mechanical Copyright Protection Society, which collects a royalty for each recording of a song made on the composer's behalf.

It is still in the throes of discussion with the Performing Right Society, which collects composers' royalties whenever music is broadcast, and Phonographic Performance, which ensures that record companies receive broadcast royalties for master recordings.

Once Cerberus has received the approval of these bodies, Adar plans to get the service started in the hope that he can carve out a commercial niche between the alternative music blasted out for free by the cyber-pirates and the mainstream fare relayed by the big companies.

"What's the point of just pumping out music over the Net for nothing so no one gets paid for it?" he asks. "That doesn't help anyone."

Multimedia is in for a rough ride, says Price Waterhouse

By Alan Cane

Companies large and small will have a rough ride before they see returns on their investments in multimedia, and some will not survive, according to forecasts from a leading US technology centre.

Business uses will lag behind consumer applications, it suggests, and confusion over standards may inhibit investment. "Giant alliances and small start-ups will have difficulty making a profit in most segments of this market for the next few years," says Price Waterhouse, the management consultancy, in its annual Technology Forecast.

It defines multimedia as the combining of different forms of electronic data - audio, video, text, graphics and telephony - in ways which result in richer and more powerful communication. About 70 interactive television systems will be in operation in the US and Canada this year.

Although Price Waterhouse expects multimedia to change the face of business information systems, it does not expect it to happen with any speed. "Within the forecast period (two to three years)

multimedia systems will move forward but will not be widely deployed in business. The technology and applications for large-scale use will trail some years behind the attention-getting announcements and corporate mergers," it says. For example, consumer games will provide funding for the business use of virtual reality, but few genuine applications of this form of multimedia are expected in the next few years.

"The infrastructure for the information superhighway is not in place and its installation is proving a difficult and costly task," says Michael Katz, managing editor of the Forecast. "A huge amount of new software will be required to manage the network, charge users for the services and enable users to access the services efficiently."

The Forecast introduces the concept of the "desktop teleputer" - multimedia systems for businesses of all sizes which combine office telephony and computing as well as audio and video. In the short term, however, Price Waterhouse believes that businesses will buy multimedia extensions to add to existing systems as prices fall.

These could include video and audio cards (printed circuit boards). Price Waterhouse says: "The market for sound cards shipped separately is expected to rise dramatically for two more years, but then fall as sound becomes integrated into desk-top systems. There are more than 60 suppliers of sound cards to this marketplace, with Creative Labs' Sound Blaster capturing the largest share."

Standards remain a problem. The Forecast says that the existence of many competing standards in some technical areas - and a lack in others - will diffuse the energies of systems and software developers, and help deter business investment in multimedia.

Software and systems developers prefer to work to defined, industry-wide standards which give them the greatest opportunities to sell their products in volume. The forecast says that multimedia software standards that have emerged commercially so far address low-ranking problems of handling the input and output of data, and its storage.

*The Technology Forecast 1995 is an internal document for Price Waterhouse staff and clients.

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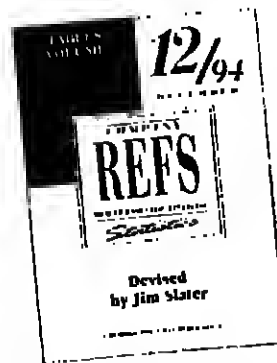
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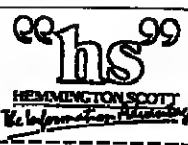
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THE WEEK AHEAD

DIVIDEND & INTEREST PAYMENTS

TODAY

Baxter Int \$0.2625

Bowater \$0.15

Bristol Water 10.4% Rd Db 2000/02

BS20 10.4% Rd Db 2000/02

British Sugar 10.4% Rd Db 2013

BS20 10.4% Rd Db 2013

Bulmer (HP) 9.2% Cm Pf 4.75p

Do 8.9% 2nd Pf 4.375p

Burck 7% Cv Ln 1998/97 \$3.50

Falkstone Dock & River Pf Units

\$3.25

First Dabur Fin 11.6%

Swy Clid Db 2018

\$3.50

Hewlett 7% Cm Pf 3.5p

Manchester Ship Canal 3.4% Pp

1st Mtg Db \$1.75

Do 3.4% Pp Db \$1.75

Do 4% Pp 1st Mtg Db \$2.0

Do 4% 2nd Mtg Db \$2.0

Do 4% Pp Db \$2.0

Mid Kent Water 9.4% Rd Db 1997/

\$3.50

Do 12.4% Rd Db 2005 \$6.125

Do 12.4% Rd Db 1995 \$6.375

Mid-Sussex Water 4% Pp Db \$2.0

Do 5% Db \$2.5

Do 11% Rd Db 2012/16 \$5.5

North East Water 10.3% Db 1996

\$5.15

Portals 6% Pf 2.1p

RSIT 8% Cm Pf 4p

Rights & Issues Inv Tst 10.1851p

Do 5.6% Pf 5.5p

South Staffs Water 3.4% Pp Db

\$1.75

Do 4% Pp Db \$2.0

Do 5% Pp Db \$2.5

Do 9.4% Rd Db 1998/2000

\$4.825

Do 9% Rd Pf 1998/2000 4.5p

Tops Estates 10.4% 1st

Mtg Db 2011/16 \$5.125

Unigroup 7.4% Cm Pf 3.625p

Do 8% Rd Pf 1998/2000 4.5p

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Do 8% Rd Pf 1998/2000 4.5p

TOMORROW

Alka 8.4% Cm Pf 2008/13

4.825p

Allied London Props 2.7p

AMEC 1.5p

Amersham Int 4.8p

Anglian Water 5.4% IL Ln 2008

\$3.1288

Appleby Westward 3.2p

Asprey 6.4% Cm Pf 4.125p

Bank of Wales 13.5% Sb Ln 1995/

97 \$3.44

Bardon Cv Pf 3.625p

BAT Inds 8.5p

Battersea 0.85p

BICC 8p

Black Arrow 1p

BM Grp Cv Pf 2.3p

Boort Int 6% Cm Pf 4.5p

Bridon 8% Cm Pf 1.05p

British Aerospace Cv Pf 3.875p

Gen Tst 8.6% Db 2023

\$4.0625

Do 10.3% Db 2011 \$5.1675

British Polythene 8.4% Cm Pf

4.825p

Bund 1.8p

Cambridge Water 125p

Do 4% Cons Pp Db \$2.0

Do 10% Rd Db 1996/98 \$5.0

Do 13% Rd Db 2004 \$6.5

Carlton Comm Cm Pf 3.25p

CI Grp 0.2p

Denmark (Kingdom of) 3.6% Ln

1901 \$0.48575

Electronics 3.25p

FI Grp 8.75p

Fluore 1.7p

Flaming High Inc Inv Tst 1.1p

Floras Units IFB 5.7p

GBE Int 0.5p

Genor 6% Pf 0.05

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Genor 6% Pf 0.05

WEDNESDAY

AFR 3.4% A Pf 1.8825p

Do 3.4% B Pf 1.75p

Adams 6% Pf 1.05p

Sabra Lease Mgmt 7.4%

Mesazine Nts 2001 \$181.25

Do 5.8% Snt Nts 2001 \$1450.0

Sears Roebuck \$0.40

SEC 2p

Silentnight 2.75p

South Staffs Water Hids 18p

T

CONZENZ



PALESTINE
The opera season opens on Thursday with a rare production of "Zaza", a lyrical comedy by Leoncavallo (left). Toscanini conducted the premiere in 1900, and it has occasionally been revived for the benefit of star sopranos. The driving force behind the Palermo production is veteran conductor Gianfranco Gavazzoni, with his wife Daniela in the title role.

LONDON

Winifred Pinnock's "Leave Taking", an exploration of identity and loss in the West Indian community, opens at the Cottesloe in the National Theatre on Wednesday.



BIELEFELD
In 1935, Viktor Ullmann wrote "Der Sturz von Antichrist", an opera about the triumph of art over political tyranny. Ullmann's own fate - he never saw the work performed and was gassed at Auschwitz - seemed to contradict the opera's message. But he will be vindicated on Saturday, when the ever-resourceful Bielefeld city theatre gives the world premiere, in a staging by John Dew.

It is highly appropriate that the year should end with those "multi-million selling monks from Silos" dominating the nation's billboards, for the demand in 1994 for music with a religious or spiritual slant showed no sign of slackening.

Little wonder, then, that *Officium*, Jan Garbarek's collaboration with the Hilliard Ensemble, should prove one of the year's most notable successes: the marriage of Garbarek's haunting saxophone playing and the Ensemble's immaculate choral work proved an inspired combination. Anonymous's *Love's Illusion*, a collection of 13th century courtly love texts from the Montpellier Codex, was also beautifully sung while John Tavener's *The Akathist of Thanksgiving* and a host of recordings of Russian Orthodox church services prompted a wave of unprecedented musical attention on the religious heritage of the states of the former Soviet Union.

Still with Eastern Europe, the welcome concentration of new Szymonowski recordings included Simon Rattle's ravishing account of the *Stabat Mater*, the *Litany to the Virgin Mary* and the *Third Symphony*. Here was religious music of a very different kind, devout but richly sensual, glowingly played by the City of Birmingham Symphony Orchestra at the peak of its form.

John Eliot Gardiner's cycle of *Beethoven Symphonies*, although by no means the first to be played on period instruments, provided a thrilling re-interpretation of some of the most familiar work in the musical repertoire. Gardiner and the Orchestra Révolutionnaire et Romantique, with the help of some metronomic revisionism, brought back some of the wit and urgency to these monumental works which have all too often drowned in self-importance and pomposity. Another favourite work which benefited from a fresh rendition was Handel's *Messiah*, movingly played by William Christie. Les Arts Florissants and a talented young cast of singers.

The big names in classical music are getting used to being treated like pop stars, but one cannot help feeling that their moment may have come and gone. Certainly *The Three Tenors in Concert 1994* looked and sounded like the over-the-top of a good idea. Fortunately, the tools some of these men are still impressing elsewhere, most notably Plácido Domingo who, in his third recording of *Verdi's Otello*, conducted by Myung-whun Chung, gave his most mature account yet of this most demanding of roles; Cheryll Studer was an affecting *Desdemona*.

Jessye Norman was an overwhelming *Salome* in Seiji Ozawa's powerful version of Strauss's unsettling opera, while Siegfried Jerusalem was a suitably heroic *Lohengrin* in Claudio Abbado's cultured recording with the Vienna Philharmonic. My operatic highlight of the year, however, was Wolfgang Sawallish's *Die Meistersinger von Nürnberg*, with Bernd Weikl and the ubiquitous Cheryll Studer in impressive form.

Cecilia Bartoli charmed again on *Mozart Portraits*, but I am the only one who wishes she would extend



Cecilia Bartoli: charmed again

Monks to punks

Peter Aspdén on 1994's best-selling records

her repertoire, and her voice, just a little? Perhaps it is the over-excitement of seeing the Beatles at the top of the charts again, but one cannot help thinking at the end of the year that British pop is in remarkably good shape: albums by Blur, Suede and Oasis stood out for their verve, originality and desire to work inventively within the context of the three-minute pop song.

Blur's *Parity* stood firmly in a tradition which stretches back to the Kinks, the Small Faces and the Jam, combining wry, glottal-stopped, state-of-the-nation snapshots of ordinary life ("I'd love to stay here and be normal but it's just so overrated") with some surprisingly long melodies. There was more swagger about Oasis in *Definitely Maybe*, all lanky guitars and killer tunes, but perhaps the comparisons with *Revolver* are a little far-fetched. Suede's *Dog Man Star* comes from an altogether different direction: gothic, theatrical but still admirably accessible. They are a very fine trio of albums.

The death of Kurt Cobain was the least surprising but most shocking event of the rock calendar; it is difficult not to see Nirvana's *Unplugged in New York* as a harbinger of things-to-come, which adds to its compelling nature. A man who knows a thing or two about rock casualties is Jeff Buckley, son of Tim, whose debut *Garcia* showed great song-writing promise and a wonderful, soaring voice reminiscent of his father's precious instrument.

While Nirvana was mellowing out, that other American giant group REM was moving in the opposite direction: it followed the introspective sophistication of *Automatic for the People* with the muscular, upbeat *Monster*, a move which was not unanimously acclaimed but which gave the band fresh impetus

for its forthcoming tour of Europe. If it was chill-out music you were after, albums by Lyle Lovett (*I Love Everybody*), Nanci Griffith (*Flyer*) and Mary Chapin Carpenter (*Stones in the Road*) were intelligent examples of the genre, while Neil Young's *Sleeps With Angels* found the grizzled veteran in sombre mood.

Finally, the past year has seen a continuation of the growth of compilations and theme albums, perfect fodder if you have the attention span of a sound-bite or the sensitivity of a cartoon character. *Classic Sleepers*, *Classic Weepies*, *Opera to Die For* and *Classical Ecstasy: Exploring the Triangle Factor* were just some of the sillier titles to join their pop equivalents in the record stores; good sense would dictate that there cannot be many more of these to come in 1995, which strikes me as a comforting thought for the new year.

Funding - from famine to feast

Are the arts in danger of being overwhelmed with cash? The Arts Council's lottery money is piling up in the bank, £15m and rising. Tomorrow the first applications will arrive from arts companies seeking help, and in April the first grants will be distributed. If all goes according to the forecasts of National Lottery organisers Camelot, the arts will eventually receive at least £500m a year, doubling the amount they already get from the government in subsidy.

But who would begrudge them this unexpected windfall? Have not the arts struggled for years, clinging to the wreckage of their brightest plans? Well...

Undoubtedly the arts in the UK have never been over-indulged by government. The extra £5.1m, for a total grant of £191.5m, that Lord Gower, the chairman of the Arts Council of England, extracted from the government for 1995-96, still fails to make good the under-funding of recent years. Even Gower, an unrepentant monetarist, believes the arts need £500m a year in subsidy to leave all their financial troubles behind.

Yet despite this generally accepted shortfall, the arts in the UK flourish. In the last decade not one major, or even middling, arts company has completely disappeared. The biggest casualty, Kent Opera, went quiet for a time when it lost its council grant but last year was back in a small way. Any entrepreneur thinking of setting up in business could do much worse than examine the arts: compared with the fate of British industry over the past generation the arts are a template for growth and stability.

Even last year, in which the Arts Council suffered its first ever cut in subsidy and many companies developed deficits, the quality of work produced would have been the envy of any other nation. Thanks to organisations like the Royal Court, the National Theatre Studio and the Bush, new playwrights can see their ideas (*My Night With Reg*, *Beautiful Thing*) pass seamlessly from workshop to West End success in months - if it is any good.

Opera is in powerful voice, with acclaimed new productions of old favourites, like Covent Garden's *Traviata*; a critically challenging new *Ring*, also at Covent Garden; a well received new opera, *The Second Mrs Kong* at the brand new Glyndebourne; and a refreshing *Fidelio* from Scottish Opera at the equally spanking new Festival Theatre in Edinburgh.

In dance at the moment over 7,000 tickets for classical ballet are being sold each night in London as two *Nutcrackers* compete with *Cinder-*

ella to charm packed audiences; in music London still finds work for four symphony orchestras, while in the regions the example of the CBSO in building an audience around a charismatic young conductor (Sir Simon Rattle) is being copied by the National Orchestra of Wales, the Bournemouth, and points north. In contemporary art British artists like Damien Hirst and Rachel Whiteread wow them abroad. In their reviews of 1994 the critics have found plenty to chew over. And all this creativity before the lottery money comes on stream.

Of course there is a price to pay. Arts directors spend too many evenings being nice to sponsors and worrying about balancing the books rather than new work; salaries in the arts are pitiful; to make ends meet programming veers towards

Could new wealth mean a death blow for British cultural life? Antony Thorncroft reports

the bland and the safe.

And there have been casualties - dark nights this month at the Playhouse Salisbury and the Redgrave at Farnham, which are among the 16 regional theatres with worrying financial problems. But the Arts Council has announced a cash package for them and the closures look to be temporary.

With competition from the best television service in the world, and with the lag of the recession affecting consumer expenditure, it is really quite extraordinary that there is still a reasonable audience for the living arts in the UK. It is also remarkable that, given the poor commercial training in the arts industry, the vociferous arts lobby should very rarely point to the main reason why companies get into trouble - not inadequate funding but poor management. It happens often enough in the real world.

And now lottery money. It is intended for capital projects, but improved ticketing systems, more comfortable seats and improved bar facilities must spill over into extra revenue. The council is expecting well over 10,000 applications and is keen to point out that they need not all be in by tomorrow. It will concentrate on helping existing arts companies, large and small, from the Royal Opera House to Tiddington Theatre Club, and will expect some matching funding. It wants track records and the certainty of continuity. It is suspicious of new arts ventures, fearing fly-by-nights

jumping on the bandwagon. Its grants will range from £10m to £5,000.

But the wonder of it all is that, in theory, this money will keep flowing, for ever. How long can it be before every theatre, concert hall, art gallery, arts centre in the land is in tip top shape. Five years? Ten? The possibilities are finite: the UK just cannot contain so much hidden artistic talent that its arts framework can expand indefinitely.

It is already accepted that in a few years, perhaps by 2000, the rules governing arts funding will have to be changed, to adapt to the very different world created by the imminent gold rush. At the end of the year 2000 the Millennium Fund is to be wound up, giving each of the other four lottery beneficiaries a quarter of its annual pot of money - an extra £50m or so for the arts. This would be a good time for taking stock.

By then the strains of success will be starting to fry tempers. Who will fund all the new events in the brand new arts houses, and what about the inevitable failures among recipients of council money? Can arts organisations come back for another grant when the rain seeps through again? How will the lines blur between amateur companies and the professionals, and how will the arts cope with populist press reports comparing the inevitable artistic scams which will develop set against closing hospital wards? And can any government maintain the level of annual subsidy when the arts is seen to be so generously supported by the public through betting mania?

Then the calls for lottery money to become revenue grants - or rather to form endowments that can produce annual income - will become vociferous and overwhelming. But before that happens the lottery will totally transform the face of the arts in the UK, first by forcing companies to upgrade their management in order to cope with unknown quantities of cash, and then, within a decade, by adapting to new patterns of funding.

It is up to the arts to prove that the lottery money can bring added benefit in terms of creativity, building on an already high imaginative base. The public, the majority of which has no great love of the arts, has been passive about government subsidy in the past. People might become restive as they observe new wealth pouring into the arts, especially if it fails to touch their lives. As bishops keep telling us, too much sudden wealth can lead to tears rather than smiles. Are the arts up to the challenge?

INTERNATIONAL ARTS GUIDE

AMSTERDAM

CONCERTS

Het Concertgebouw Tel: (020) 871 8345

- European Baroque Orchestra: Wieland Kuijken conducts Telemann, Muffat and Bach at 8.15 pm; Jan 8
- Royal Concertgebouw Orchestra: with violinist Sarah Chang, Charles Dutoit conducts Bartók, Lalo, Shostakovich and Ravel at 8.15 pm; Jan 4, 5, 6
- GALLERIES
- Van Gogh Museum Tel: (020) 570 5200
- Oudon Radon: retrospective of the French artist's work with over 160 paintings, etchings and lithographs; to Jan 14

OPERA/BALLET

Het Muziektheater Tel: (020) 551 8622

- L'italiana in Algeri by Rossini. Produced by Dario Fo, conducted Alberto Zedda at 8 pm; Jan 13

BERLIN

OPERA/BALLET

Deutsche Oper Tel: (030) 41 92 49

- Ballet Evening: premiere of works by Debussy, Poulenc and Stravinsky. Conducted by Sebastian Lang-Lessing, choreography by Nacho Duato, Glen Tetley and Harris Mendofakis at 7 pm; Jan 14 (8 pm)
- Der Rosenkavalier by Strauss. Conductor Jiri Kout, production by Götz Friedrich at 8 pm; Jan 8
- Zar und Zimmermann by Lortzing. Conducted by Hans Hilsdorf, production by Winfried Baumeister at 7 pm; Jan 10, 13 (8 pm)
- Staatsoper Unter den Linden Tel: (030) 2 00 4762
- Die Zauberflöte by Mozart. Conductor Daniel Barenboim, production by August Everding at 7 pm; Jan 4, 7

BRUSSELS

CONCERTS

- Philharmonie de Bruxelles Tel: (02) 507 84 34
- Abdel-Fahman El-Bacha: pianist plays Chopin at 8 pm; Jan 11
- Belgian National Orchestra: with soprano Zuzana Misura and baritone Andras Molnar, and conducted by Yuri Simonov plays Wagner at 8 pm; Jan 12
- Monnala Symphony Orchestra: with the Monnala Choir conducted by Antonio Pappano plays Brahms at 8 pm; Jan 8

LONDON

CONCERTS

- Barbican Tel: (071) 638 8891
- London Symphony Orchestra: conducted by Ivan Fischer plays Dvořák at 7.30 pm; Jan 12
- LSO New Year Viennese Concerts: London Symphony Orchestra conducted by John

- Georgiadis plays melodies of the Strauss family and their contemporaries at 7.30 pm; Jan 2
- Royal Philharmonic Orchestra: conducted by Bramwell Tovey plays Mendelssohn, Handel, Bruch and Beethoven at 8 pm; Jan 7
- Queen Elizabeth Hall Tel: (071) 928 8800
- Orchestra of the 18th Century: with conductor Frans Bruggen and soprano Cynthia Sieden plays Haydn, Mozart and Beethoven at 7.45 pm; Jan 12

GALLERIES

- Hayward Tel: (071) 261 0127
- The Romantic Spirit in Romantic Art 1790-1950: examines work of early Romantic painters. Includes a section on German Expressionists; to Jan 8
- Tate Tel: (071) 887 8000
- James McNeill Whistler: major survey of the Victorian painter and designer; to Jan 8

OPERA/BALLET

- English National Opera Tel: (071) 632 8300
- Figaro's Wedding: in house debut for conductor Derrick Houya at 7 pm; Jan 11, 14
- Festival Hall Tel: (071) 928 8800
- The Nutcracker: by Tchaikovsky. English National Ballet and its Orchestra choreographed by Ben Stevenson at 7.30 pm; to Jan 2 (Not Sun)
- Royal Opera House Tel: (071) 340 4000
- Cinderella: music by Prokofiev. Created by Fredrick Ashton in 1948, this was the first full-length ballet by an English choreographer at 7.30 pm; Jan 3, 14
- Othello: by Verdi. Conductor

- Carlo Rizzi, director Elijah Moshinsky. In Italian with English surtitles at 7.30 pm; Jan 13
- Swan Lake: by Tchaikovsky. Choreographed by Marius Petipa and Lev Ivanov, production by Anthony Dowell at 7.30 pm; Jan 5
- The Sleeping Beauty: a new production of Tchaikovsky's ballet. Produced by Anthony Dowell, set designed by Maria Bjornson at 7.30 pm; Jan 4 (2 pm)

THEATRE

- National, Lyttelton Tel: (071) 928 2252
- Out of a House Walked a Man: by Danil Kharms. A Royal National Theatre and Theatre de Complicité co-production of a collection of musical scenes by the Russian absurdist writer at 7.30 pm; Jan 7 (2.15 pm)
- The Children's Hour: by Lillian Hellman, directed by Howard Davies at 7.30 pm; Jan 2, 9, 10 (2.15 pm)
- Queen Elizabeth Hall Tel: (071) 928 8800
- Cinderella: by Rossini. The Music Theatre London present this new translation by conductor and musical arranger Tony Britten, and director Nicholas Broadhurst at 7.15 pm; to Jan 3 (Not Sun)

NEW YORK

GALLERIES

- Brooklyn Museum Tel: (718) 638 5000
- Indian Miniature Paintings: 80 jewel-like paintings from the 15th -19th century; to Jan 8 (Not Mon)
- Metropolitan
- Ann Hamilton: exhibition reveals the artist's interest in the relationship

- between sight and touch; to Jan 3
- Origins of Impressionism: 175 paintings by French artists of the 1860's to Jan 8 (Not Mon)
- William de Kooning's Paintings; to Jan 8 (Not Mon)

OPERA/BALLET

- Metropolitan Tel: (212) 362 6000
- Dia Fiedermus: by J. Strauss. Sung in German with English dialogue at 8 pm; Jan 5, 7, 11, 14 (1.30 pm)
- L'Elisir d'Amore: by Donizetti. Produced by John Copely, conducted by Edouard Müller at 8 pm; Jan 2, 6, 9, 14
- Le Nozze di Figaro: by Mozart. Produced by Jean-Pierre Ponnelle, conducted by James Levine at 8 pm; Jan 12
- Madama Butterfly: by Puccini at 8 pm; Jan 4, 7, 10, 13
- Peter Grimes: by Britten, English at 8 pm; Jan 3

THEATRE

- Richard Rodgers Theatre Tel: (212) 307 4100
- A Christmas Carol: engaging one man show of the classic with Patrick Stewart at 8 pm; to Jan 8

PARIS

GALLERIES

- Grand Palais Tel: (1) 44 13 17 17
- Gustave Callebote: retrospective of the painter and patron of art who belonged to the circle of impressionists; to Jan 9
- Poussin: 400th anniversary retrospective; to Jan 2
- Musée d'Orsay Tel: (1) 45 49 11 11
- Forgotten Treasures from Cairo: a rich collection of works by Ingres, Courbet, Monet, Rodin, Gauguin and

others; to Jan 9 (Not Mon)

OPERA/BALLET

- Châtelet Tel: (1) 40 28 28 40
- Christina Hoyos: Flamenco choreographed by Hoyos, Martin and Galla, music by Paco Arriaga at 8.30 pm; to Jan 7

WASHINGTON

CONCERTS

- Kennedy Centre Tel: (202) 467 4600
- Yo-Yo Ma: the cellist along with pianist Emanuel Ax, violinist Pamela Frank, clarinetist Paul Meyer and flutist Eugenia Zukerman plays Brahms and Schoenberg at 8.30 pm; Jan 11

GALLERIES

- National Gallery Tel: (202) 737 4215
- Roy Lichtenstein: A survey spanning four decades of the American Pop artist; to Jan 8

OPERA/BALLET

- Washington Opera Tel: (202) 418 7800
- Semela: by Handel. Conductor Martin Pearson. Roman Terleckyj directs a Zack Brown production at 8 pm; Jan 7 (7 pm), 9 (7 pm), 13
- The Bartered Bride: by Smetana. Conducted by Heinz Fricke. In English at 7 pm; Jan 2, 8 (2 pm)

THEATRE

- Arena Stage Kreeger Theater Tel: (202) 554 9066
- Misalliance: by Bernard Shaw, directed by Kyle Donnelly; to Jan 8
- Shakespeare Tel: (202) 393 2700
- School for Scandal: by Sheridan. Directed by Joe Dowling at 8 pm; to Jan 7

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Listeners to Radio Russia, the national radio station, have just been told how important it is in healthy democracies to have a well-organised opposition, and of the need to rid themselves of any vestigial feeling that opposition equals subversion.

Later this month, there will be 25 minutes on government in a nation state and how federations and confederations work, before the 22-part documentary series, *Democracy at First Hand*, moves on to topics such as the independence of the judiciary and the role of the media in a neo-totalitarian state.

It is hardly the lightest of listening. Yet on past experience, the *Democracy* series is likely to attract an audience of more than 2.5m Russians, keen to get to grips with difficult realities, now that the euphoria of the late 1980s that followed the disintegration of communism has faded.

The series is the latest to be produced by the Marshall Plan of the Mind Trust, chaired by Mr John Tusa, a former managing director of BBC World Service, under the aegis of the Corporation. Mr Tusa came up with the idea of the trust three years ago, as a modern version of the strategy devised by US secretary of state George Marshall to help rebuild Europe after the second world war.

"We always thought and I always hoped that the example of this as a way of transmitting knowledge would be an example that would catch on," says Mr Tusa.

His aim was to bring broadcasters and the business world together to provide "seed corn" knowledge about democracy and market economics, initially to Russia.

The unique broadcasting project went on the air two years ago, with Russia's first daily radio soap opera *Dom 7*, *Podzemel' (House 7, Entrance 4)*. *Dom 7* has introduced audiences of about 5.5m to the problems faced by ordinary Russians in the transition from communism. Its characters include Baba Polya, the elderly babushka (grandmother), Zena, a laboratory scientist, her husband Anatoly, an academic, Yura the drunken plumber and his long-suffering wife, Varya.

In the UK the soap has been christened *Archerski* or *Ambridgegrad* after *The Archers*, the long-running British radio soap set in Ambridge which drops didactic agricultural messages into the plot.

With a permanent staff of four in cramped offices in BBC

Listen with Russia

Raymond Snoddy on educational radio programmes for eastern Europe



World Service's London headquarters and an annual budget of less than £1.5m a year, the Marshall Plan of the Mind has been turning out a growing range of programmes. It has included a 29-part series, *The Free Market Society*, that attracted 2.5m listeners and almost 4,000 letters. There is a weekly business programme called *How Business Works*. And more than 100 took part in an essay-writing competition on the subject: "What could entrepreneurs do for Russia today?" Many of the programmes are recorded and used as teaching aids in schools and universities.

Last year, the trust expanded into Ukraine with five television programmes on the theme *How Do We Feed Ourselves*, and a radio series, *Masters of the Land*. These were aimed at the thousands of new private farmers who are growing a disproportionate percentage of Ukraine's food, and also at state farms and collectives in an attempt to help them improve their performance.

The television series, seen by 10 per cent of the population, starred Mr Mykola Sobchuk, chairman of the Agricultural Joint Stock Company in Usty-myvka near Kiev. He inter-

viewed UK farmers about commercial management and his wife Tamara was seen visiting a supermarket.

Already programmes first broadcast on Radio Russia are in demand for rebroadcasting by other stations throughout the former Soviet Union. Many stations take the weekly omnibus version of *Dom 7*.

A key to the trust's success appears to be the fact that the programmes are specially made for their audiences in their own language. Research shows they are not seen as coming from outside or talking down to their audiences.

Now the trust is moving outside the borders of the old Soviet Union for the first time, following a request for another radio soap with a subtle economic message.

"The European Union came to us and said: 'We've seen what you have done with Radio Moscow, can you help with one in Romania?'" says Mr Tusa.

The trust - which receives no money from the BBC - has been mainly funded by £2m from the UK government's Know-How Fund, set up to channel aid and transfer skills to ex-communist countries. The rest of the money has come from business and charitable foundations, such as the Ford Foundation of the US, and the European Union.

The *Democracy* series has been commended by Mr John Major, the UK prime minister, who said at its launch that "democracy is not simply an event - it is a continuous and demanding process".

Mr Tusa is, however, surprised that there has been so little business support for a broadcasting project reaching what may turn out to be the new business elite of Russia in an emerging market. Just £200,000 would be enough to fund half a major series.

"British business is still very very cautious about Russia, perfectly understandably," says Mr Tusa. "But you would have thought, particularly with something like the weekly business programme, that someone would have found it worthwhile to have their name associated with it."

Mr Tusa believes that, given adequate funding, the concept could be applied in any country going through transition.

"The most important thing is you have to have a willing partner who will put it on their domestic airwaves. It has got to be there in the living room," he adds.

Barely a month in office, President Ernesto Zedillo of Mexico will today give what could be the defining speech of his six-year presidential term.

His task is to convince two audiences - foreign investors and the Mexican people - that the financial crisis provoked by last month's surprise devaluation of the peso will not lead to an inflationary spiral.

Failure to win over his audiences would mean more outflows of foreign and Mexican capital, making the task of stabilising an already fragile economy even more difficult. Success could turn Mexico into a thriving export-based economy.

The devaluation of the peso by 32 per cent between December 19 and Friday's close has seriously weakened Mr Zedillo's government at home and damaged foreign investor faith in Mexico. Investors are nursing heavy losses and many are feeling betrayed by an administration that promised continuity and stability.

The crisis has also forcefully underlined that membership of the North American Free Trade Agreement with the US and Canada, which came into force a year ago, is no cure-all for Mexico's economic ills.

The set-back has already led to the resignation of Mr Jaime Serra Puche, finance minister, whose four-week tenure in the post was the shortest of any minister in modern Mexican history.

Following financial crises in 1976, 1982, and 1988, it has also left many Mexicans wondering what condemns their country to such regular financial dislocation.

Although the crisis has dented Mr Zedillo's personal stock, his government appears as much a victim of circumstances and inherited policy as the villain of the piece. With billions of dollars flooding out of the country, the exchange rate policy inherited from the administration of President Carlos Salinas - which allowed for a devaluation of a maximum of only 4 per cent a year as a central plank in the fight against inflation - could not have been defended indefinitely.

While Mr Zedillo took office pledging a continuation of the Salinas position, the new government had, in truth, already decided that the old policy would have to be overhauled in the new year.

"We had a clear idea of how to move towards a much more flexible exchange rate, a type

Mexico's currency crisis has weakened President Zedillo's government, says Stephen Fidler

That sinking feeling



Ernesto Zedillo: peso crisis an early test of his presidency

of crawling-peg that would slowly take us to full flexibility, starting in the first quarter of 1995," said a senior government official.

The decision to stick with the Salinas policy through the first weeks of the new administration was to underline continuity in economic strategy. The old strategy looked sustainable for a few months more even though some \$15bn of official reserves had been spent between last March and mid-November to support the peso.

The periodic speculative attacks on the currency from late-1993 onwards should have served as a useful early warning signal for the incoming government.

In November 1993 the peso came under massive siege, ahead of the US congressional vote to ratify Nafta. In March, according to government officials, money poured out of Mexico following the assassination of Mr Luis Donaldo Colosio, the ruling Institutional Revolutionary Party's first choice presidential candidate. Amid the political uncertainty in mid-year, there were days when \$1bn or more left the country.

In May, when Mr Jorge Carpizo resigned as interior minister, reserves fell by \$1.5bn before he was persuaded to reverse his decision. On November 23, when deputy-attorney general Mr Mario Ruiz Massieu accused members of the ruling party of involvement in the September murder of his brother Francisco, a further \$1bn fled.

The last straw for the markets came in December when Zapatista guerrillas threatened a bloodbath in the southern state of Chiapas, over a disputed state election result.

Investors took flight. On December 19, an enormous run on the peso forced the government to lower the floor of the currency by 15 per cent. After a day of relative peace, another speculative onslaught forced the government to abandon the new floor and float the peso, an embarrassing reverse. What made the government

so vulnerable was the size of the current account deficit.

The deficit had to be financed by raising funds on the international markets which, following the sharp and successive rises in US interest rates from last February, were becoming less accommodating to the needs of Mexico and other "emerging" economies. Mexico's current account deficit was running close to 8 per cent of gross domestic product, high by international standards. In effect, the country was spending \$2.2bn a month more in goods and services than it was earning from abroad. With the international markets now less receptive, Mexico's foreign reserves were increasingly being drawn upon to cover some of the current

account deficit.

Mr Zedillo now says the current account problem was seriously under-estimated. His new emergency package to be unveiled today, will aim to bring down the current account deficit in 1995 to the more sustainable level of 3-4 per cent of GDP. The president will announce plans to cut government expenditure by 2 per cent, in a package that will aim to reduce aggregate demand in the economy by 5 per cent. Forecasts for 1995 GDP growth will be cut to 1.5 per cent, compared with more than 4 per cent before the devaluation.

A central aim of the package will be to ensure that wage rises do not eat away at the competitive benefits of the

devaluation. "It's essential we are able to have a depreciation of the exchange rate measured in wages. That will change relative prices in the economy, making exports and import substitution extremely profitable," said a senior government official.

The government also hopes that talks at the weekend with business leaders and trade unions will lead to an agreement to limit wage rises to about 7 per cent. The government is expected to forecast that inflation next year could fall to 15 per cent.

Mr Zedillo is also expected to announce a big financial support package from foreign governments and banks that could total more than \$10bn above the \$7bn already pledged by the US and Canada. This would include a standby credit from international banks led by J.P. Morgan and Citibank of the US, further help from the US and Canada and a central bank line of credit arranged through the Bank for International Settlements in Switzerland.

The government is expected to secure the backing of the International Monetary Fund through a so-called "enhanced surveillance programme", but has decided not to ask for a standby loan. The relatively small amount of money available under such a loan would not, say government officials, be enough to compensate for the domestic political cost of going cap-in-hand to the IMF once more.

In his emergency package, Mr Zedillo will place emphasis on privatisation, including the sale of important parts of the state electricity and oil monopolies, and the entire transport sector. He will also indicate Mexico's readiness to accept for the first time foreign takeovers of Mexican banks. Although he will not announce it today, finance ministry officials are also drawing up contingency plans for bank restructuring if problems in the banking system materialise because of the devaluation.

There is little doubt that Mr Zedillo will today come up with an intellectually rigorous programme to tackle the crisis. "If these guys are good at one thing, it's putting together coherent plans of this sort," said a stockbroker in Mexico. The president is, however, dealing with an elusive commodity - confidence. His failure to win domestic and foreign confidence could doom the best-laid strategy and seriously impair his presidency.

LETTERS TO THE EDITOR

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Unrealistic pensions threaten economies

From Ms Estelle James.

Sir, Martin Wolf's column (*Economic Eye*: "Confronting the old age crisis", December 19), about the World Bank study, *Averting the Old Age Crisis: Policies to Protect the Old and Promote Growth*, correctly pointed out that pension systems are in trouble world-wide because of rapidly ageing populations. As Wolf explained, governments cannot keep their promises to the growing number of pensioners without over-hurdening the economy, thereby hurting the old and everybody else.

We were therefore surprised that Professor Willem H Buiter suggested that public pension promises should be made binding, without regard to whether they are sustainable (Letters, December 21). Faced

with governments unable to pay public pensions, Prof Buiter would "reform the constitution to make it prohibitively difficult or costly for governments to renege on certain classes of commitments".

Buiter neglects to address the fundamental issue. Governments that attempt to deliver on overly generous pension promises made when populations were young have only two options: they can raise taxes or run deficits. Either ultimately hurts the economy on which everybody depends.

Are existing private pension systems the answer? In most cases, we do not think so. Without proper regulation, private pension funds may be as prone to over-promising and mismanagement as public funds. Moreover, unless private pension

saving is mandatory, only upper income groups have access to private pensions in the first place.

For these reasons, we recommend that governments with large, over-hurdened public pension plans shift toward leaner plans with flat or means-tested benefits designed to provide a minimum income and alleviate poverty among the old. Wage taxes freed by this reform should go to mandatory savings that are privately managed (to increase returns and reduce the likelihood of government diverting the funds) and publicly regulated (to guard against fraud and inappropriate levels of risk).

Voluntary saving would provide the third leg in what we have termed a "multi-pillar"

system. Spreading risk in this way provides greater security for the old than putting nearly all the nest eggs in a single public or private basket.

Pension reform is inevitable. Countries can begin now and reform gradually, thereby minimising social and political fallout. Or they can wait, in which case dislocations will be much worse. Making pension promises more realistic - and hence reliable - is a central goal of reform. Requiring governments to deliver on current, unrealistic promises would be a poor way to begin.

Estelle James, senior economist, policy research department, The World Bank, 1818 H Street, NW, Washington, DC 20433, US

Mortgage market 'problem' unfounded

From Mr Tim Frost.

Sir, In his review of the 1994 bear market in bonds ("Not such a safe haven", December 23) John Plender states that "one of the problems of a US public to lock in mortgage rates. The hedging of these mortgages in the interest rate swap market, especially in the early part of this year, helped push swap and gilt rates higher. Clearly, access to the derivatives markets, in this case through fixed-rate mortgages, has been beneficial to

the British public. Indeed, J.P. Morgan has calculated that, following rises in interest rates, UK fixed-rate mortgage holders have saved themselves some \$500m.

The public has demonstrated how derivative markets can be used in successful hedging strategies. This is not a "problem" Mr Plender, this is the free market in action.

Tim Frost, 26 Esmond Road, Chiswick, London W4 1JQ

assume that US mortgage holders have been the beneficiaries, paying lower rates for longer.

Similarly, in the UK the availability of fixed-rate mortgages has enabled the British public to lock in mortgage rates. The hedging of these mortgages in the interest rate swap market, especially in the early part of this year, helped push swap and gilt rates higher. Clearly, access to the derivatives markets, in this case through fixed-rate mortgages, has been beneficial to

Italy's main hurdle is its constitution

From Mr Francesco Ciccato

Sir, Your analysis of Italy's problems ("Force of Destiny", December 23) cites the immediate causes of the demise of the Berlusconi government. You do not, however, acknowledge that its failure and Italy's sorry condition are consequences of the political and economic hangover besetting Italy after a corrupt bonanza in the 1980s, and of a dated and deficient constitution.

It should be remembered that France once suffered similar debacles; these were a thing of the past with de Gaulle's Fifth Republic and a new (two-ballot and majority principle) voting system.

Italy has not shown itself capable of addressing the constitutional concern properly; but it will only be when the political and economic questions are addressed that there will be any hope for change. It is idle to speculate about whether there will be new elections or a new appointment of Mr Berlusconi with a decrepit constitution and a half-baked electoral system, a "second republic" will remain propaganda used by those who still live on the spoils of the first. Francesco Ciccato, 16 Thurlow Street, London SW7 2ST

From Mr George McKenzie.

Sir, The UK government's research strategy for universities is in a shambles. The most recent Research Assessment Exercise (RAE), designed to create a league table of universities according to their research output ("Research funding to favour commercial use", June 10), is creating bizarre incentives. I write as a social scientist, so the experience of academics in other areas may be different.

Because departments are evaluated on their contributions to traditional disciplines - for example, economics, physics, English - no recognition will be given to interdisciplinary work which seeks to address policy issues of current concern whether it be unem-

ployment or the explosive growth in derivative securities.

For the same reason, no recognition will be given to collaborative ventures with industry, the financial sector or government. Yet the Economics and Social Research Council is giving highest priority to funding activities with such direct links. The output from such work will not count unless it has appeared in core publications which by and large are devoted to theoretical rather than applied problems.

In order to improve their RAE ratings, universities are buying in the publications of established academics with little regard to whether the hired individual will enhance the research (or teaching) activi-

ties of existing staff.

Because the current RAE places emphasis on the quantity of output, academics are rushing to place ISSN and ISBN numbers on all sorts of incomplete or preliminary documents so that they may count as publications.

The end result of the RAE will be to make university departments more inward looking and discipline-based rather than to encourage processes designed to enhance our understanding of contemporary problems. George McKenzie, director, centre for international finance, University of Southampton, Highfield, Southampton SO17 1BJ

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Monday January 2 1995

Absence of war in Ireland

To the inhabitants of Northern Ireland, this Christmas was like no other in the past 25 years. There were no political or sectarian murders. No bombs went off, no constabulary or soldiers were shot, no innocent civilians were killed. The people of Ulster seem thunderstruck by the silence.

This is the perhaps the most significant gain yet to arise from the process that began on December 15, 1993, when the British and Irish prime ministers issued the "Downing Street declaration". That laboriously crafted document set out the bases upon which the people of Ireland, north and south, may exercise their right to determine their own future.

The list of gains arising from the declaration is lengthening. The recent powerful upsurge of joy at the laying down of arms would not have been possible without the confidence themselves, the first called by the IRA, the second by "loyalist" terrorist groups. The violence might not have been halted had it not been for the viable bond of unity between Dublin and London.

The strategy agreed between Mr John Major and Mr Albert Reynolds has held firm, despite a difference of emphasis on day-to-day tactics that could not be avoided, given the different constituencies addressed by the prime minister and his Irish counterpart.

Both Mr Major and Mr Reynolds, who lost his post for domestic reasons, played their hands well. Historians may also credit President Clinton who, whatever his motives, helped Mr Sinn Féin into the world of non-violent politics. In Dublin Mr John Bruton, the new Taoiseach, has been quick to demonstrate that he subscribes fully to both the Downing Street Declaration and the agreed methods of dealing with the fractious parties in the six counties.

Economic gains

Not the least of the gains is economic. It is not clear that Northern Ireland needs further injections of public money, whether from the EU or the US. Yet it is now better positioned to attract private investment, and increase employment.

None of the above means that peace is secure. The violence might well be resumed in 1995,

possibly after Easter, when the IRA is due to convene to review the effects of its cease-fire. Yet the heads of government involved appear to understand that without political momentum there can be no permanent peace.

Within the next few weeks the British and Irish governments should publish a second declaration, setting out the framework within which the northern Ireland parties might agree on new constitutional arrangements. This is a delicate balancing act. Cross-border institutions must reflect nationalist interests within northern Ireland without feeding unionist suspicions that every change leads directly towards a united Ireland. If the Irish government promises a referendum on the republic's aspirations to unity, Britain must alter its own law to remove any doubt about its willingness to accept whichever allegiance the people of Ulster choose.

Relinquish armaments

Before such a document is debated the IRA will be asked to relinquish or "decommission" its armaments. Mr Major is right to insist on this. So far Sinn Féin IRA has refused, but called for general "demilitarisation". Perhaps a deal can be struck, but not one that includes a complete withdrawal of British troops, not yet. Other difficulties lie ahead: the IRA demands release of its "political" prisoners; the London view is, rightly, that murderers cannot be set free other than in the normal process of parole.

The greatest dangers are psychological. Mr Bruton's Fine Gael cannot deliver the Irish nationalist; it does not have their trust. His principal coalition partner, Mr Dick Spring of the Labour party, is perhaps neutral in this respect. But Fianna Fáil, now in opposition, is the nationalists' preferred party. FF must therefore be consulted as an equal contributor to Irish thinking.

The IRA may have stopped the war because it saw it was getting nowhere. But it has yet to be convinced of the value of travelling the democratic road. Perhaps the obvious popularity of the absence of war among Ulster's ordinary people offers the best hope that the IRA-Sinn Féin ultimately will be so persuaded.

A business resolution

A decade ago, you could find the phrase "the bottom line" in this newspaper roughly twice a week. By 1994, that frequency had tripled. This lack, gleaned from the FT's electronic database, does not just reflect the newspaper's taste in clichés. It also reflects the changing mood of business.

Since the early 1980s, there has been an over-emphasis on profits and profitability as the measure of corporate success. With reason: though an imperfect yardstick, profits are the best measure of the value a company adds to the economy, and hence the best justification of its existence. And without a relentless emphasis on profits, companies would have found the slowdown or recession of the early 1990s as damaging as that of the early 1980s.

But this new gear, as the economy of the developed world grows healthily together, there is an emerging awareness that the bottom line is not enough. Companies need to supplement this concern with an eager interest also in the "top line" of their profit and loss statements, the revenue figure.

Nowhere is this more relevant than in Europe, as Professor Gary Hamel of London Business School argues in his essay "Selling the bottom line". The unemployment rate in the developed world, he writes, European executives must make growth an "overwhelming obsession".

Why have most big European companies grown so slowly in recent years? The overriding reason, certainly, is the macro-economic environment. Punishingly unpredictable in some countries, grimly deflationary in others, it has proved a relentless enemy of innovation and expansion.

New orthodoxy

There are other reasons, however. One is a sea-change in managers' views of their role. The emphasis on profitability, and a generation of business-school teaching, has produced an austere new orthodoxy: stick to your knitting, focus on your core business, do what you do best.

If this has led managers to steer clear of diversification for its own sake, it has surely been to the good. If it has led them to be unambitious, to streamline rediscovered core businesses rather

Imaginative leaps

than push aggressively for higher sales, then it is a pity. With Europe's markets growing once more, it is time for managers, freed from the short-term pressures of survival, to set more ambitious sales targets.

From many of Europe's big-company managers, though, that thought will provoke only a hollow laugh. The recession may be over, but competition remains fierce. The single market is ending the days of safe domestic sales; competitors from Asia are ever more aggressive; eastern Europe provides low-cost products of increasing quality. Against such a background, how can managers hope to be more ambitious?

One answer surely lies in the companies singled out by Prof Hamel as examples of successful European growth: Swatch, Nokia, Virgin Atlantic, International Service Systems. All have built their success on genuine leaps of imagination and innovation in product design, engineering, service or distribution. Such leaps are open to any company, large or small.

A second answer is that, no matter how hard they work, their imaginations, many big companies will find it hard to protect market share against rising competition. For such companies, there is no point in generating higher sales artificially, through misguided diversification or expensive, ill-judged takeovers. For Europe as a whole, a growing part of the burden of growth and innovation must be carried by smaller companies, as in the US.

Yet smaller European companies often find it hard to expand beyond a few dozen employees. Barriers to corporate enterprise, it has been argued, are at least as great a drag on Europe's growth prospects as labour market rigidities, the subject of recent concern.

A new year's resolution for European governments, therefore, might be to ease small businesses' burden of regulation and compliance. And with the prospect for steady, non-inflationary economic growth as good as at any time since the 1960s and 1980s, it is time for companies, large and small, to rediscover the optimism, ambition - and imagination - which marked those decades.

Way of the world in '95

After a number of economic and political surprises in 1994, FT writers forecast the events that are likely to shape the world over the next 12 months

First of all, how well did the prophecies of FT writers fare last year?

Martin Wolf was right in thinking the European exchange rate mechanism would not be put back into narrow bands, but wrong in predicting that the UK base rate of interest would trough at 4.4 per cent.

John Plender wrote that "a big rise in US short-term interest rates could precipitate the Crash of '94". There was a global crash but, unexpectedly, in bond rather than equity markets.

Robert Thomson thought, too pessimistically, that the Japanese economy would "probably not" recover, while Alexander Nicoll believed that the Hong Kong economy would "march on for the time being". It did.

Lionel Barber said Norway would be the shakiest of the four Nordic applicants for membership of the European Union. But neither Belgium's Jean-Luc Dehaene nor Luxembourg's Jacques Santer appeared on his list of possible successors to Jacques Delors.

Meanwhile, John Lloyd was bullish on the prospects for Vladimir Zhirinovskiy, and Edward Mortimer on those for an overall peace in the former Yugoslavia. In contrast, Stephen Fidler was bullish on Fidel Castro's ability to remain Cuba's leader.

Philip Stephens believed the Conservative party was showing signs of remembering it was the party of government, but covered himself by writing: "The lesson of this government has never been to assume the recent past is a guide to the near future."

Finally, Jurek Martin thought the odds that President Clinton would succeed with healthcare were "barely in his favour". He failed, anyway.

advanced than on the Continent. Many of the forces behind the US takeover boom are starting to be replicated in Europe: economies are recovering from recession and businesses are changing their focus from cost-cutting to growth, if necessary by acquisition. Companies have stronger balance sheets and more cash available to fund bids, while banks are once more keen to finance takeovers.

The fall in many equity markets in 1994 amid recovering corporate profits, also means that targets look cheaper than 12 months ago.

Will anyone make money out of multimedia?

Raymond Snoddy writes: The multimedia industry was memorably described recently by a senior executive from the largest US cable operator, TCI of Denver, as "the fastest growing zero billion dollar business in the world". Yet amid all the talk of superhighways, video-on-demand, the Internet and cyberspace, one potential winner and source of profit is emerging to go alongside old-fashioned broadcast television and video: the CD-Rom.

1995 could be the year of the CD-Rom both for entertainment and education. Already about one-third of US homes has a personal computer and CD-Rom capability is increasingly standard. CD-Roms, at the moment a \$10n-a-year business in the US, could be a \$60n business within the next few years. This year Europe will really start to follow, although from a much lower base. CD-Roms may not be as exciting as superhighways. But, as one huge multinational survey on multimedia concluded, "there is no identifiable set of consumer segments or revenue streams which will justify the infrastructure cost of the information superhighway either in the US or in Europe".

Yet there have recently been some exciting developments. Discoveries within the past two months include:

● The structure of a significant enzyme, called HIV Integrase, which is present in the AIDS virus but not in human cells. This is a promising target for new anti-HIV drugs.

● A group of prostitutes in the Gambia, whose immune systems have produced "killer cells" and eradicated all traces of virus from their blood. They could be an important clue to developing vaccines against HIV infection.

● Clinical proof that combinations of two or more anti-HIV drugs have a more powerful and long-lasting effect than any one drug.

Such discoveries are raising hopes among AIDS researchers that 1995 will see a breakthrough. This could either be a treatment that works far better than AZT, today's standard AIDS drug, or the first HIV vaccine, or both. All the same, no one is talking about a "cure" that will eradicate the virus from the bloodstream of anyone who is infected.

US equities have been overvalued on fundamental criteria for years, partly because the system has been awash with liquidity. The risk now lies in the other direction. Excessive tightening may be required to meet the Federal Reserve's target for lower growth.

The biggest victims outside the US will be the emerging markets. Indeed, Mexico is an early casualty of Fed policy. In due course the UK equity market will feel the pressure, too. The Joker is Tokyo, overvalued on fundamentals and independent-minded of late. Could it resist a Wall Street crash? My guess is no.

Philip Stephens writes: Yes, John Major will hold on in Downing Street even if the Conservative party continues to disintegrate around him. The Tory MPs determined to oust the prime minister have nowhere else to go. The pro-European Kenneth Clarke is a far more dangerous enemy to the Eurosophes who want Major out. So too is Michael Heseltine, whose passion for Europe is matched only by his skill in persuading the Tory right of his uncompromising patriotism.

In those circumstances, Major's standing in the opinion polls can hardly get any worse. There is one caveat: the Tory party must begin to recover its senses, while Labour's Tony Blair continues to steal its clothes and supporters.

Philip Stephens writes: The late 1980s. This year is likely to see a sharp upturn in European takeovers, particularly in the UK, where economic recovery is more



With a bit of luck London and Dublin should make some headway



The upward trend in interest rates will continue



Tokyo may not be able to resist a Wall Street crash



A more sober economic assessment is likely - with or without Deng



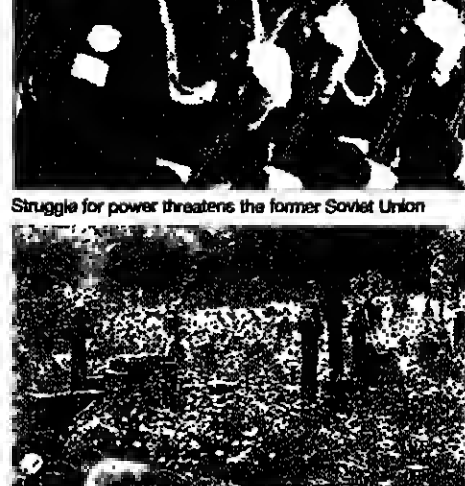
John Major's standing in the opinion polls can hardly get any worse



Struggle for power threatens the former Soviet Union



Clinton's tax cuts should please Republicans and middle America



A cure for AIDS remains elusive

What will happen in N Ireland?

Edward Mortimer writes: There may with luck be some progress towards a constitutional settlement, but it is most unlikely to reach fruition within 1995. One year after the Downing Street Declaration, and four months after the IRA ceasefire, London and Dublin have still not produced their "framework document" for talks.

The talks themselves, involving the parties within Northern Ireland, will be hard to start, let alone finish. Mr John Hume's SDLP (the main Irish nationalist party in the north) will be reluctant to start without Sinn Féin at the table, while unionists will refuse to sit down with Sinn Féin unless the IRA first hands in its weapons.

Sinn Féin, for its part, argues that "demilitarisation" (ie, withdrawal of British troops and virtual abolition of the Royal Ulster Constabulary, in parallel with IRA disarmament) should be part of the agenda. So far the IRA has observed the ceasefire with impressive discipline. But the longer the political process drags on without dramatic British concessions, the greater the danger that "rogue elements" will resume violence, with or without the leadership's secret blessing.

David Marsh writes: The EU will make headway in implementing "single market" legislation not yet fully effective, such as liberalisation of public procurement.

Abolition of passport controls will finally become a reality on most Continental EU borders. Progress in opening up previously "closed" sectors - energy, telecommunications and postal services - will, however, remain slow.

The admission of Austria, Finland and Sweden will add to momentum for "widening" rather than "deepening" EU integration. But plans to bring in central and eastern Europe by the year 2000 will be bogged down in hickering over the EU's budget.

Under President Edouard Balladur, likely victor of the presidential elections, France will blunt Chancellor Helmut Kohl's drive for a "federal" Europe. During its six-monthly EU presidency, which started yesterday, France will drop its resistance to the European police co-operation agency, desired by Bonn to strengthen the drive against organised crime. But there will be little meeting of Franco-German minds on the steps towards political union that Kohl says he

Will Japan's coalition survive?

William Dawkins writes: Japan's three-party coalition of conservatives and socialists is likely to see defections, but the remnants might hang on to power.

More than half of the Social Democratic party, second largest member of the alliance, is threatening to walk out. Would-be defectors are angry with Mr Tomiichi Murayama, prime minister and party leader, for giving up most of the Socialists' policies to win the backing of the Liberal Democratic party, the dominant coalition member. Meanwhile, the loyalty of the smallest alliance partner, the New Harbinger party, has been shaken by policy snubs from the LDP.

The LDP's popularity will be tested in three elections this year, for town mayors and prefectural governors in April, and half of the upper house of parliament in July. It is likely to do well on the strength of a recent poll showing nearly 45 per cent support for the government. But the Socialists will be hammered for abandoning their promises.

Would the LDP be able to hold on to power without its unreliable partners? That depends on the performance of the new opposition party, the result of a merger of the nine opposition groups, with 178 seats in the lower house.

Just a few weeks after the December 10 launch of a dull party manifesto, it is sinking in the polls, with a mere 14 per cent support rating. Nearly half of the electorate could not care less. A record 47 per cent of voters told a recent poll that they support no political party.

What might life be like after Deng Xiaoping?

Tony Walker writes: Most assumptions about China in 1995 are built around Deng's demise. China's new collective leadership would inherit an economy growing at more than 10 per cent and inflation remaining high at about 20 per cent. The emphasis would be on unity, but leadership tensions would almost certainly develop.

While China's extraordinary economic development will continue to grip the imagination of international business, a more sober appreciation of the risks and rewards is likely this year - with or without Deng. Chinese leaders pray for a soft economic landing. More likely is a bumpy road ahead, economically and politically.

John Lloyd writes: The claim nearly all post-Soviet societies have made is that they will become "normal" states: the reality is that the conventional bases of citizenship lack institutional forms.

The response to the collapse of communism has been a fragmentation of society and a search for security either in tribes, religions and ethnicities, or in companies and mafias. The question is whether the institutional forms of the market and of pluralism, which exist everywhere, will acquire content and popular support, before the nations left by the Soviet collapse fragment into a series of struggles for power, territory and wealth. My guess - not forecast - is still yes, but a much less confident yes than it was

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Contest may hinder leadership of enlarged union France takes EU helm amid presidential race

By John Riddling in Paris

France took the helm of the European Union for six months yesterday amid worries that the race to succeed President Francois Mitterrand might complicate the task, just as the Union has expanded from 12 to 15 members. Using his 14th and final new year's address to buttress French support for European integration, Mr Mitterrand urged his country to support the process, which has been increasingly questioned by some political opponents on the right. "Never separate the greatness of France from the construction of Europe," he said.

However, the contest to succeed President Mitterrand, whose second seven-year term ends in May, might hinder French leadership of the enlarged EU. One EU diplomat said: "There will be a lot of distractions, some fierce debate about Europe, and the risk of paralysis in day-to-day business."

Speaking at the weekend, Mr Mitterrand appeared determined to complete his second term, despite his long battle against

cancer. But the possibility that he may be forced to step down prematurely has fuelled the competition between potential successors.

Mr Edouard Balladur, the prime minister and current favourite in the polls, is expected to announce his candidacy within the next few weeks. Mr Jacques Chirac, a fellow Gaullist, has already announced his candidacy. The two-round poll is due in April and May.

The pace and extent of European integration will be a key issue in the election. Mr Chirac has made overtures to the large Euro-sceptic minority in the Gaullist RPR party, pushing Mr Balladur to distance himself from a federalist vision of Europe. Other possible right-wing candidates, such as Mr Philippe de Villiers, are strongly opposed to the Maastricht treaty on European union.

French officials reject concerns that political wrangling will undermine its presidency of the EU and insist it will be able to implement its programme. Details of the French agenda are

expected to be laid out at the European parliament in Strasbourg later this month. But Mr Balladur has already said his top priority is to make EU foreign and security policy more effective, and to work towards the creation of a European army.

After the Christmas hijacking of an Air France airliner by Islamic extremists and the escalation of the Algeria crisis, France is also expected to press its European partners to increase aid and support for the Mediterranean region. In so doing, it is seeking to offset the eastward push in the EU, championed by Germany.

Mr Alain Lamassouie, France's European Affairs minister, said job creation would be central to the French presidency.

President Mitterrand has promised that France will complete an agreement on Europe, a European police agency, in time for the EU summit in Cannes at the end of June. The project, strongly backed by Germany, met resistance from within the French government, notably from Mr Charles Pasqua, the interior minister.

Value of pension funds in Britain falls 4%

By Norma Cohen in London

UK pension funds lost 4 per cent of their market value in 1994, their second worst performance in 20 years, according to a study released yesterday.

The results collected by WM company, the performance measurements service, show that last year was also only the second since 1975 that UK pension funds gave negative returns. In 1990, they lost just over 10 per cent of their market value.

The losses came as UK pension schemes are exhausting the large surpluses established from better-than-expected investment returns over the past decade. However, because most pension schemes are valued by the cash flow they produce, rather than market value, last year's performance is unlikely to force companies to add cash to their schemes.

The data also show that, for the first time in several years, pension funds have increased investment in UK bonds to boost liquidity. Mr Peter Worthington, director of WM, said the move reflected the falling proportion of active contributing members to the average scheme. "A number of schemes have taken out separate bond portfolios just for their current pension liability."

Schemes with large numbers of members drawing pensions need more assets in bonds to ensure sufficient cash flow. The average fund held 5 per cent of its assets in bonds at the end of 1994, up from 4 per cent at the end of 1993. WM said that increase reflected net cash bond purchases of roughly £4.5bn (\$7bn).

The rise in investment in bonds comes at the expense of UK equities which fell 2 per cent to 54 per cent of the average pension fund's investment pool. Mr Worthington said the move to bonds was striking because they produced negative returns of 10 per cent in 1994 - the second worst-performing investment.

The worst performing assets were equities of companies based in the Pacific basin (except Japan), which had negative returns of 16.4 per cent in 1994. UK equity investments by pension funds earned negative returns of 5.8 per cent in line with the FT All Share Index.

Overseas equities, which make up 24 per cent of the average UK pension portfolio, had negative returns of 1.6 per cent - but were boosted by investments in Japanese equities, the best performing asset class of 1994, earning returns of 16.7 per cent.

Overseas bonds had negative returns of 16.4 per cent. UK property continued to rise in value, proving to be one of the few classes to provide positive returns. Investments in continental Europe gave a return of 0.3 per cent. Cash returned 3.9 per cent.

Letters, Page 10

THE LEX COLUMN

M & A on the move

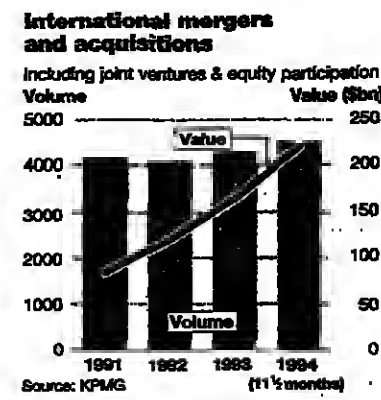
This year looks like being a bumper one for mergers and acquisitions. Even if the US takeover boom of the past two years is merely maintained, the level of activity will be high. But Europe could be swept up in corporate match-making this year too. The recovery of the region's economies is giving its companies strong enough balance sheets to take part. Activity is already picking up in the UK with several large bids announced in the last quarter of 1994. Continental European companies will probably tread more gingerly, partly because of the absence of a takeover culture and partly, in Italy and France at any rate, because of election uncertainty.

The current wave of US takeovers is not merely cyclical. It is prompted mainly by the need to restructure industries in response to technological advances, deregulation, globalisation and cutbacks in government spending. This explains the high degree of M&A concentration in a few industries. The profusion of multimedia and financial services deals is being driven mainly by changing technology, deregulation and globalisation; public spending controls have been the main factor behind defence and healthcare mergers though globalisation is also important. The same forces are in operation in Europe.

A further trend is the breaking up of conglomerates. Companies such as Kodak, Nokia, Volvo and even, to some extent, ITT and Daimler Benz are embracing the gospel of sharper focus. This trend, which has clearly a long way to go, will spawn much M&A activity. Not only is one company's divestiture usually another's acquisition; the cash received from disposing a peripheral business is likely to be deployed building up the core.

The pattern of deals in 1995 will be different in several industries. In defence, following Lockheed/Martin Marietta and Northrop/Grumman, much of the US restructuring is complete. How quickly Europe follows suit depends largely on whether politicians are prepared to pool sovereignty. Meanwhile, in healthcare, the recent trend for drugs companies to buy pharmacy benefit managers has run its course; the logic of doing so is increasingly questioned and there are few left. This year may see more straightforward mergers in the fragmented global pharmaceuticals industry as a way of removing duplication, especially in distribution channels.

M&A activity may also spread into other industries in 1995. Food manu-



facturing and other consumer products look obvious candidates. Many companies find themselves holding a portfolio of second or third-tier brands; by swapping assets, they may be able to accumulate a smaller number of top-tier brands.

Multimedia

Sceptics point out that few in the media, telecoms or computer industries have a clear idea of where the much talked-about information superhighway is leading. But that is unlikely to slow down the frenzy of dealmaking. In a period of flux, even uncertain companies will seek to hedge their bets through alliances or acquisitions. Further consolidation within the media, telecoms and computer sectors, and deals that redefine the boundaries of the three industries, can be expected.

Recently formed international telecommunications alliances will probably be extended as monopolistic European markets are opened to competition. Some of these may eventually be converted into full-scale mergers. Following the difficulties with its Mercury Communications subsidiary, unaltered Cable & Wireless may be ripe for either a break-up or takeover.

The UK and some other European countries could follow the US in consolidating their cable television industries so that clusters of local networks can enjoy economies of scale. The restructuring of the US telecoms industry would gather pace if Congress passes promised legislation removing restrictions on local, long-distance and cable companies invading each other's markets. Even without a new bill, the trend of building infrastructures capable of carrying voice, video and wireless services will

Financial services

Information technology has reduced the need for expensive retail banking branch networks. Deregulation in many countries is increasingly allowing rationalisation. The US has already seen much consolidation, but the trend could gather pace this year as limits on interstate banking are removed. Further restructuring of Italy's banking industry is likely following the bid for Credito Romagnolo. And the pressure on the UK's building societies has intensified after the Halifax/Leeds and Lloyds/Cheltenham & Gloucester deals.

The failure of last year's Morgan Stanley/S.G. Warburg merger removes the urgency for copycat deals in the investment banking industry. But the logic behind the discussions remains alluring: corporations and investors increasingly need investment banks capable of channelling capital flows and managing deals on a global scale.

A single big acquisition could still lead to a complete restructuring of the industry, with the activity concentrated in the US and UK. One likely trigger would be the abolition of the US Glass-Steagall Act, as promised by the new Congressional leaders. If the limits on commercial banks' operations in securities markets are removed, the likes of Deutsche Bank and UBS as well as a few US banks will be tempted to buy a presence on Wall Street.

Poles adopt a slimmer zloty amid confidence on inflation

By Christopher Bobinski in Warsaw

Banking staff in Poland began removing noughts from zloty bank accounts yesterday following the country's revaluation of its currency.

The new zloty is equivalent to 10,000 old zlotys, with one US dollar now buying about 2.4 zlotys instead of 24,000.

Poles earning a monthly wage of 5m zlotys will now get 500 new zlotys. The new notes are dominated in 10, 20 and 50 zlotys. Higher-value notes will be introduced later in the year.

The revaluation had been planned for several years, but the decision to enact it now signals government confidence that the double-digit annual inflation of the past few years will fall to a single figure by 1997. Next year the rate of price increases is forecast to fall to 17 per cent from this year's rate of 29 per cent.

Poland's cent, the gross, is also reappearing after almost a generation of disuse, having been swept away by inflation in the 1980s. Vendors of coin counting machines and purses are

already reporting a mini boom. Officials at the National Bank of Poland believe the reform will make financial operations more efficient. The coins and the new zloty notes will come as a relief for those who have found having to deal in millions and billions a trial. Taxi meters, petrol pumps, cash registers and most pocket calculators have been unable to handle big figures, so the missing zeroes had to be added mentally.

The government ran a television publicity campaign to reassure people that their new money would be worth exactly the same as the old. But opinion polls have shown widespread fears that traders and suppliers of services will use the chance to round up prices.

Many Poles also fear confusion because the old notes will remain in use for two years alongside the new. Surveys show that pensioners view the change with trepidation. They remember the currency exchange in the early 1990s wrought by the Communists which wiped out the savings of many at a blow.

In response Ms Hanna Gronkiewicz-Waltz, head of the

National Bank of Poland, the central bank, has appeared on television to assure people that they will not suffer any losses as a result of the move.

Mr Tim Heaton of Coopers and Lybrand in Warsaw says the revaluation will be welcomed by accountants although the first month is expected to be difficult. Book-keepers will have one set of figures on their December invoices and will have to do the January books in the new currency.

The new notes, printed by De La Rue in the UK, carry images of medieval monarchs and are a far cry from the industrial landscapes and farmgirls which adorned money in the early Communist times. The writers, artists and national heroes on the current notes will disappear over the next two years when both sets of notes will remain in circulation.

The new money was to have carried pictures of Polish cities. But that print run, ordered in Germany, had to be pulled when the central bank decided that anti-forgery devices on the notes were inadequate.

Russia claims troops control Grozny

Continued from Page 1

Mr Yeltsin's support among liberal deputies in the Duma, the lower house of parliament. Russia's Choice, the biggest parliamentary faction, is discussing

whether to withdraw its four representatives from the government.

Economists fear that the cost of resolving the Chechen crisis may jeopardise Russia's 1995 budget plans, undermining critically

needed support from the International Monetary Fund. Mr Yevgeny Yasin, the economics minister, yesterday estimated the cost of restoring the Chechen economy at Rbs2,500bn to Rbs3,000bn (\$4,452bn).

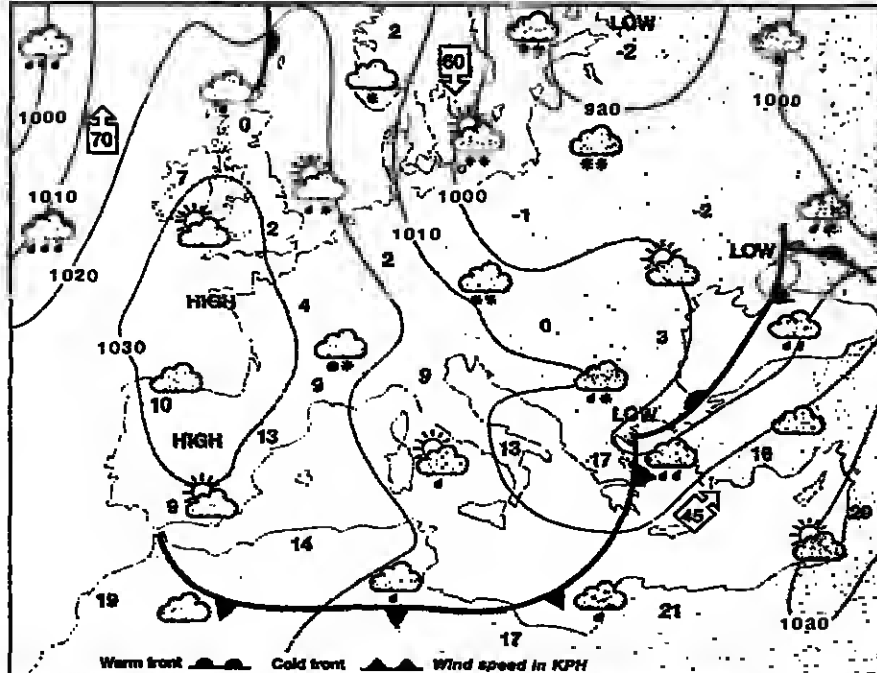
FT WEATHER GUIDE

Europe today

High pressure building over the Gulf of Biscay will promote light winds and generally fine conditions in much of Spain, western France and the British Isles. Arctic air will arrive over Scandinavia, Denmark and Germany. There will be many wintry showers with hail, sleet or even snow along the Baltic seaboard of Sweden, northern Poland, the Low Countries and southern Germany. A lot of snow is expected along the northern slopes of the Alps. Temperatures will be near or below freezing in these regions. Extensive cloud and outbreaks of light snow will cover much of Finland and western Russia. An active frontal disturbance will trigger scattered showers from northern Africa to southern Greece. The Black Sea region will have a lot of rain.

Five-day forecast

The surge of wintry air over continental Europe will slowly but steadily move east. The boundary between retreating frigid air and the milder oceanic air mass will enter the North Sea countries, raising temperatures to above freezing.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

Abu Dhabi	fair	31	Beijing	fair	3	Cameras	fair	28	Faro	fair	17	Madrid	fair	7	Rangoon	fair	32
Accra	fair	23	Belfast	cloudy	4	Casablanca	cloudy	18	Fremantle	snow	13	Moscow	fair	1	Singapore	fair	35
Algeria	cloudy	14	Berlin	snow	1	Chicago	fair	4	Glasgow	cloudy	16	Manchester	cloudy	13	Rome	fair	11
Amsterdam	snow	6	Bombay	fair	20	Cologne	snow	4	Hamburg	cloudy	1	Melbourne	cloudy	2	S. Francisco	fair	13
Athens	fair	19	Buenos Aires	fair	30	Dakar	fair	28	Helsinki	fair	0	Mexico City	fair	23	Seoul	fair	21
Atlanta	fair	7	Brussels	hail	4	Dalhousie	sun	21	Hong Kong	cloudy	23	Miami	fair	20	Stockholm	snow	-1
A. Nicosia	cloudy	23	Buenos Aires	cloudy	2	Dubai	sun	22	Honolulu	fair	27	Milan	fair	8	Sydney	fair	21
B. Nicosia	fair	23	Chengdu	sun	1	Dublin	cloudy	5	Istanbul	rain	13	Montreal	snow	-4	Taipei	fair	21
Bangkok	fair	33	Cairo	sun	20	Dubrovnik	showers	11	Jakarta	showers	30	Moscow	snow	-1	Tel Aviv	fair	19
Barcelona	fair	12	Cape Town	sun	25	Edinburgh	fair	2	Jersey	fair	0	Munich	cloudy	1	Yokohama	fair	10
									Koror	fair	18	Nairobi	showers	11	Toronto	fair	-4
									Kuala Lumpur	fair	15	Nassau	fair	27	Vancouver	fair	8
									La Paz	fair	23	New York	fair	18	Venice	fair	8
									Lima	cloudy	27	Nice	fair	12	Vienna	cloudy	9
									Lisbon	fair	12	Nicosia	fair	17	Warsaw	snow	0
									London	fair	3	Oslo	fair	3	Washington	fair	4
									Luxembourg	snow	3	Paris	fair	3	Wellington	fair	18
									Lyon	snow	-1	Perth	fair	37	Winnipeg	cloudy	-17
									Madras	cloudy	21	Prague	snow	-5	Zurich	snow	0

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Monday January 2 1995

MARKETS THIS WEEK



JOHN PLENDER:
GLOBAL INVESTOR
US equities have been overvalued for so long on any sane view of earnings or dividend prospects that investors' continuing suspension of disbelief has come to seem a natural condition of market life. Page 18



PETER NORMAN:
ECONOMICS NOTEBOOK
The entry of Sweden, Finland and Austria into the European Union will breathe new life into a complex and potentially explosive debate among EU central bankers on Europe's monetary future. Page 16

BONDS:

Japanese investors may hold the key to the eurobond markets in 1995. The crucial question likely to dominate the eurobond market this year is whether Japanese investors will turn away from yen assets and begin to buy paper denominated in other currencies. Page 18

EQUITIES:

After so many ill-fated attempts by the FT-SE 100 to breach the 3,100 level, it is perhaps asking too much of the London market to blaze a trail this week as the new year unfolds. In New York, market players will be looking to start the year with a bang, after last year's feeble finish that saw a late year-end rally cut short by uncertainty surrounding the financial crisis in Mexico. Page 17

EMERGING MARKETS:

Latvia and its Baltic neighbours, Estonia and Lithuania, are driving to set up well-regulated and stable equities markets. The legal framework is in place or in draft, economic reforms are on course and returns are potentially large. Page 17

CURRENCIES:

Currency traders and investors will return to their desks this week with high hopes, but muted expectations. Swiss Bank predicted 1995 would be the year of the "extremely carefully selected opportunity". Page 17

COMMODITIES:

Leading contracts on the London Metal Exchange generally ended 1994 near their recent long-time highs, and dealers said that the lack of an end-year sell-off suggested that all the metal markets were likely to push higher in the new year. Page 16

INTERNATIONAL COMPANIES:

Further management changes are expected at SPT Telecom, the Finnish national telephone operation, before the year ends. Page 15

UK COMPANIES:

The purchase of Winton, the UK commercial kitchen manufacturer, marks the final transformation of Barfield, the UK conglomerate which was almost written off in 1990. Page 14

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BTR may appoint outside directors

By David Wighton in London

BTR, the UK-based industrial conglomerate whose shares have fallen by a quarter in the past three months, is considering the appointment of its first outside directors as it attempts to rebuild investor confidence.

Mr Norman Ireland, chairman, stressed in an interview that the group had not started looking for candidates but admitted it was reviewing the issue following the share price slump.

Almost alone among big public companies, BTR has no outside directors largely because of the opposition of its founder Sir Owen Green. He preferred to appoint former BTR executives, arguing that they could combine independence with a know-

UK industrial group seeks to rebuild investor confidence after slide in share price

ledge of the company.

Mr Ireland, a former BTR finance director who succeeded Sir Owen as chairman in 1993, remains sceptical about external directors.

"We still believe that BTR needs directors who understand our very complex business. But we are not that bigoted and are reviewing the subject again."

It is thought that other BTR executives support the idea of outside directors and close observers point to the fact that Nyles, BTR's separately quoted Australian subsidiary, appointed its first external

director late last year.

Such a move by the parent company would be welcomed by the City.

One of the company's leading shareholders said it would be "a simple but important step" towards restoring investor confidence.

The fund manager argued that having an outside voice on the board might have helped BTR over its recent communications problems with the City.

Another institutional investor said the move would be welcomed if only because BTR would be falling into line with other

companies. "Whether BTR needs outside directors or not, people do not like its arrogant view that 'we are right and everybody else is wrong'."

BTR's shares tumbled 12 per cent on September 8 when it revealed a small decline in interim margins and warned it was finding it difficult to pass on higher raw materials prices to its customers. The City was taken by surprise following an upbeat trading statement in May.

Last month Nyles announced the acquisition of Formica Corp, the US-based laminates manufacturer, for \$60m. Rise, fall and climb, Page 6

Saatchi rebuffs Ayer offer for Bates

By Diane Summers, Marketing Correspondent

Saatchi & Saatchi, the advertising group, has rejected at least one recent offer for its Bates network of agencies and says it plans to keep the group together.

The New York-based Ayer agency is believed to have approached the Saatchi group over Bates. Acquisition of Bates - Saatchi's second main agency network - would have broadened Ayer's operation beyond its US base.

Mr Maurice Saatchi, the deposed chairman of the Saatchi & Saatchi group, favoured the sale of Bates, but other directors disagreed. The issue was one element in the boardroom clashes that led to Mr Saatchi's removal from the board before Christmas.

Mr Saatchi has been given a deadline of tomorrow to decide whether he will stay with the group and accept the largely honorary title of president of the group and chairman of the Saatchi & Saatchi advertising subsidiary. If he does decide to stay, negotiations on terms could continue beyond the deadline.

The Saatchi group said yesterday that its strategy was to continue with the company in its present structure. "This strategy has been reviewed by the board a number of times. It has reaffirmed that it would keep the group in its current format." It is believed that the Ayer approach was one of several offers to buy part of the business that Saatchi has rejected.

The continued ownership by the Saatchi group of Bates has been one of the main arguments in favour of a name change for the holding company. With substantial revenue coming from Bates, some directors argued that there was no logic in calling the group the same name as its other agency network, Saatchi & Saatchi Advertising Worldwide.

Mr Saatchi opposed the name change. When he was deposed, the board decided to press ahead with finding a new name for the holding company.

Bates is still waiting to see whether the Saatchi boardroom rows will affect relations with one of its most important clients - Mars, the confectionery and pet foods group. The Mars brothers, John and Forrest, said when Mr Saatchi was deposed that they would consider severing ties with the advertising group.

Kenneth Gooding reports on waning appetite for share offerings after 1994's glut

Mining groups hope to prolong feeding frenzy

One phrase repeated frequently in the mining industry is: "When the ducks quack, feed them." This is the industry's way of saying that international investors are fickle creatures, so any time they show the slightest interest in buying mining shares the opportunity should be quickly seized.

The ducks quacked hard last year. Mining and metals companies have raised nearly \$10m via share issues and convertible finance - about double the \$5m collected in 1993 which Mr Nick Hatch, analyst at Ord Minnett,

raise \$16m (\$25m) with a London stock market flotation, and Union Minière, the Belgian metals group that wants to sell its Swedish subsidiary, Ammeberg Mining, via an initial public offering and quotation on the Stockholm Stock Exchange.

Both were caught up in a general malaise in the new issues market that has seen other resources companies shelve offerings recently - among them Clark USA Oil, a subsidiary of Horsham of Canada, which in December postponed a \$150m initial public offering, and Kym-

conditions improve rather than to proceed on a scaled-back basis.

Union Minière also decided to wait as it was in no hurry for the \$160m or so the sale of Ammeberg would have raised. "Ammeberg is not part of our core business, but it is a valuable asset and we are not prepared to sell at a give-away price," Union Minière said indignantly.

However, one banker associated with the Ammeberg offer said the flotation would have had problems at any price because international investment institu-

tions were tired and nervous after a difficult year. "They are just not interested in another deal. They want to start afresh in January."

At the same time, while mining fund managers understood that base metals prices were recovering from very depressed levels, executives at the general funds were "deeply sceptical" about the very steep rise in non-ferrous metals prices.

"They think prices have been pushed up by the hedge funds and there is a danger that, as soon as they invest in a metals company, the hedge funds will sell, and send metal prices - mining company shares - crashing."

Mining companies and their advisers hope investor attitudes will change early in 1995 because already the queue of those wanting to raise money is growing fast.

When institutions were asked to put up cash, it was obvious they were interested only in bargain prices

mine, Finland's second-largest forestry group which called off a \$307m share issue to international investors.

Mr Michael Martineau, managing director of Samax, said a tour of several financial centres produced a generally favourable response to his company's appeal to investors, particularly in the US. But when the institutions were asked to put up their cash, it was obvious they were interested only in bargain prices.

Samax's shareholders, including the biggest, the Adax Oxry Group, a private company involved in trading and related operations in Africa, "decided to wait until [new issue] market

time, while mining fund managers understood that base metals prices were recovering from very depressed levels, executives at the general funds were "deeply sceptical" about the very steep rise in non-ferrous metals prices.

"They think prices have been pushed up by the hedge funds and there is a danger that, as soon as they invest in a metals company, the hedge funds will sell, and send metal prices - mining company shares - crashing."

Mining companies and their advisers hope investor attitudes will change early in 1995 because already the queue of those wanting to raise money is growing fast.

Some analysts suggest that

Some major raisings

Money raised via equity and convertible finance by mining and metals companies in 1994		
Company	Country	\$m
RUB	UK	625
Falconbridge	Canada	596
Western Mining	Australia	520
Reynolds Metals	US	475
Ashanti Goldfields	Ghana	384
Pasminco	Australia	370
Metall Mining	Canada	335
Outokumpu	Finland	330
MIM	Australia	305
Metallgesellschaft	Germany	295
Asarco	US	290
Asarco (Shell assets)	Australia	256
Santa Fe Gold	US	266

Source: Ord Minnett

Apart from Samax and Union Minière, which hope to take their offerings off the shelf before long, there is Alumax, the US aluminium producer which two months ago postponed the issue of \$m new shares worth about \$50m.

Also, Newmont Gold and Marmon Corporation of the US have indicated that they want to sell their shareholdings in Southern Peru Copper - worth about \$300m - via an initial public offering.

Some analysts suggest that

Lourho, having seen the successful flotation of its 49 per cent-owned Ashanti Goldfields last April, might follow up with the sale of part of its Western Platinum subsidiary this year, possibly after a merger with the platinum interests of Genor of South Africa which is often rumoured to be on the cards.

Some brokers are also trying to persuade Genor to float part of the Billiton mining and metals business that it recently acquired from the Royal Dutch/Shell group.

This week: Company news

CREDITO ROMAGNOLA

Rolo prepares terms for big Italian takeover

The official prospectus for Italy's most expensive bank takeover is likely to be released tomorrow. This is the £3.291bn (\$2bn) bid for 70 per cent of Credito Romagnolo (Rolo), the profitable Bologna-based commercial bank, by the consortium headed by Cariplo, Italy's largest savings bank.

The bid last week received the go-ahead from the Bank of Italy and is still awaiting that of Consob, the stock exchange watchdog. Once the full terms are known, Italy's banking community will wait to see if a counter-bid comes from Credito Italiano, the recently privatised commercial bank and the original suitor of Rolo.

■ Santa Fe Pacific: One of the seven biggest US railway companies starts the new year waiting to see whether Union Pacific will launch an attempt to outbid Burlington Northern's \$3.65bn offer for the company.

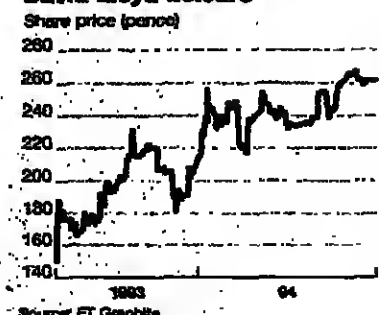
■ Union Pacific and Burlington Northern, also among the big US railroads, have been fighting over Santa Fe since October, when Union Pacific launched a hostile bid in an attempt to block Santa Fe's agreed \$3.65bn merger with Burlington Northern.

Until recently it appeared that Union Pacific would triumph with its \$3.2bn bid. But just before Christmas, Burlington bounced back with a surprise \$3.65bn offer. The next few days should tell whether Union Pacific will raise the stakes still higher, or reluctantly concede defeat.

■ Vodafone: New UK subscriber figures for mobile telephones covering the important first quarter are due to be published tomorrow.

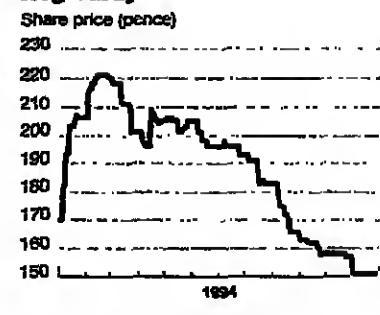
■ In the quarter to the end of September, Vodafone, the UK market leader with a 46 per cent share, added 128,000 net new subscribers. This is more than twice the level added by the company between July

David Lloyd Leisure



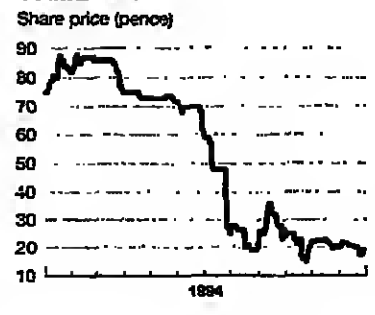
Source: FT Graphite

Reg Vardy



Source: FT Graphite

Scantronic



Source: FT Graphite

and September last year. Its rival, Cellnet, added 133,000 net new subscribers, bringing its total to 1.28m compared with Vodafone's 1.45m. Vodafone has seen its share price rise sharply during the past few weeks in anticipation of further solid gains in the important Christmas quarter.

Analysts expect about 20 per cent growth in net subscriber numbers in the September quarter. They will also be watching the "churn" rate - the proportion of customers who leave.

■ David Lloyd Leisure: The tennis and health club company is expected next Thursday to report pre-tax profits for the year to the end of September ahead by more than 30 per cent to £7.5m (\$11.7m). A total dividend of 3.6p is expected, compared with a notional 3.25p previously.

Although only one new club was opened during the year - in Glasgow - the group has reaped the benefits of growing membership and the good weather last summer. The Glasgow centre, which was opened in October 1993, has also made a good initial contribution.

The group acquired two clubs in Hampshire last July, and expects next year to open centres under construction in Birmingham and Bristol. These will put it on target with its stated policy of introducing two new clubs each year.

■ Boots: The chemists and retailing group is expected on Thursday to become the first of the large retailers to reveal how it has performed during the all-important Christmas trading period.

After a late Christmas surge in sales, analysts are looking for a total increase of at least 5 per cent in the second half at the main Boots the Chemist chain.

Like-for-like sales, which exclude new stores, are expected to be up at least 3 per cent. Like-for-like sales at Halfords, the motor accessories chain, are expected to have increased by at least 5 per cent. Full-year group profits forecasts are about £50m (\$81.2m) to £54m, but may be altered depending on when the sale of Boots' pharmaceuticals division to Germany's BASF is completed.

■ Reg Vardy: The multi-franchise motor retail group is expected to announce interim pre-tax profits of between £4.6m (\$7.2m) and £5m on Thursday.

The substantial increase on last year's £2.5m is helped by acquisitions, but also proves the value of the company's specialist retailing strategy. Investors will be keen for indications of current trading, given the recent

slowdown in the car market. Values of used cars are likely to have declined. The interim dividend is forecast to rise from 1.4p to about 1.5p.

■ Scantronic Holdings: Bid speculation is likely to resurface on Friday when the debt-burdened security components manufacturer and distributor announces widely-expect losses.

Following a recent profits warning, the company is likely to confirm that hefty reorganisation and debt servicing costs led to pre-tax losses of £2.4m (\$3.7m) in the six months to September 30, against profits of £1.4m last time.

Scantronic looks increasingly vulnerable with net debts of £10m, no funds to pay dividends, and its shares languishing at 19p - against a high for last year of 90p.

The most likely bidder remains Menzies-Swan, the emergency lighting and alarms manufacturer, which is said to be still interested in a takeover in spite of the collapse last week of preliminary talks with the group.

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This announcement appears as a matter of record only

December 1994

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WestLB Group
The Fuji Bank, Limited

Lead Managers
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The Chase Manhattan Bank, N.A.
The Fuji Bank, Limited
WestLB Group
Landesbank Schleswig-Holstein International S.A.
National Bank of Egypt International Ltd.
Südwestdeutsche Landesbank Girozentrale, London Branch

Managers
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Banca di Roma International
Banco Ambrosiano Veneto S.p.A., London Branch
Credito Romagnolo S.p.A., Luxembourg Branch
Italian International Bank Plc (Monte dei Paschi di Siena Banking Group)
Landwirtschaftliche Rentenbank, Frankfurt am Main
The Mitsubishi Bank, Limited
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COMPANIES AND FINANCE

Attractions of a Welbilt deal

Peggy Hollinger on a key move in the transformation of Berisford

Mr Alan Bowkett, chief executive of the conglomerate Berisford International, wins at the idea that his latest deal could in any way resemble the abortive bid for C&J Clark, the family-owned shoe company.

Yet, initially, the similarities between that unhappy experience and Berisford's bid for Welbilt, the commercial kitchen manufacturer, are worrying. Berisford expressed interest in both companies. It also received the promise of exclusive rights to carry out due diligence before making a bid. And finally, Berisford would only bid for either company with the recommendation of the board.

Thankfully, this time, things appear to be turning out somewhat differently for Mr Bowkett. Where the Clark board was riven with dissent, which eventually led to the defeat by shareholders of the Berisford offer, Welbilt's board has unanimously recommended the deal.

The purchase will be Berisford's second in a year and marks the final transformation of a company which was almost written off in 1990.

Mr Bowkett arrived in 1992, after a new management team had rescued Berisford from the near fatal effects of investment in the New York property market. More than 40 disposals later - which helped to reduce the debt from £1.4bn to less

than £10m - Mr Bowkett was brought in to find a new business for the commodities and property shell.

Magnet, the kitchens and joinery company, was his first purchase. Berisford funded the £56m acquisition with a 1-for-2 rights issue at 120p and saw its shares jump to 232p on the first day of trading.

Shareholders who watched the shares edge back from a 1994 peak of 243p to 207p might have been getting a little bit impatient when the Welbilt deal came along.

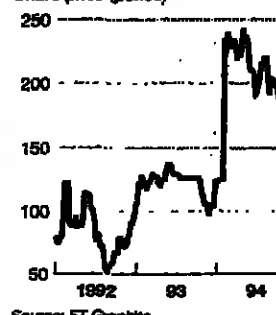
The attractions of Berisford's offer are obvious for Welbilt's shareholders. Just 16 months before, the kitchen equipment manufacturer had completed a secondary offering at about \$18 (£11.50) a share. Mr Bowkett is offering \$33.75 per share for more than half of the company. The Kohlberg family, which holds 46.7 per cent, has agreed to accept just \$30 per share.

But what about Berisford's shareholders? Surely this means the company has overpaid for the business. Not so, says Mr Andrew Hollins, an analyst with London stockbrokers Kleinwort Benson. "The earnings potential of Welbilt is dramatic," he says.

Berisford has two advantages in the Welbilt deal which allow it to pay a higher price. The company enjoys tax losses of \$650m in the US, which are expected to last for 15 years. Furthermore, it is

Berisford International

Share price (pence)



Source: FT Graphix

funding the purchase through the issue of convertible loan stock, which does not have the dilutive effects of an equity issue.

The opportunity to piggyback on the expansion of fast food chains is irresistible, he says. Mr Bowkett cites statistics, such as the fact that there is only one fast food outlet per 7,000 people in western Europe, compared with one per 1,400 in the US. The fast food chains have ambitious plans to expand substantially in Europe and the Far East before the end of the decade.

Furthermore, Welbilt's factories are only using two-thirds

of their capacity. Mr Bowkett, who favours Japanese-style corporate disciplines, does not intend that capacity to linger unused for long.

He is confident that Berisford shareholders will reap substantial rewards from the organic growth of Welbilt, as well as from canny financing.

However, there are those who pick holes in Mr Bowkett's strategy.

For example, the decision to use convertible loan stock will mean infinite gearing in the short-term. This will hold Berisford back from any further substantial acquisitions for a while. For an industrial conglomerate such as Berisford, this could be damaging.

"A large company such as this normally needs to do a deal a year to keep the share price going," says one London analyst. "The use of loan stock means it will be at least two years before the next big deal. We will have to see what it does a year down the line to keep the market interested."

Then there are the hardened cynics who argue that the deal comes at an opportune time for the chief executive who could benefit substantially from any rise in the shares when they resume trading.

Mr Bowkett, who invested £1.1m in the company on arrival and owns 1.5m shares, has options on a further 3.5m shares which must be exercised before the end of this



Alan Bowkett: The opportunity to piggyback on the ambitious expansion plans of the fast food chains is irresistible

month. Some 1.5m shares are exercisable at 98p, and the balance at 350p. He has options on another 1.55m shares, at 64p. Altogether, Mr Bowkett, who has already made his fortune through the sale of an engineering company to Japan's NSK for £210m, stands to gain more than \$4m based on the

company's suspension price of 232p.

That, however, is the cynical view. "You have to remember, that deal stands together in its own right," says Mr Hollins. "Because of the tax losses and the way they have financed the deal, it offers huge earnings enhancement for the group."

PEOPLE

Crowther joins Jupiter

Jupiter Tyndall Group, the fund management concern, announced the appointment of Mr Charles Crowther as joint deputy chairman.

Mr Crowther joined the board following the acquisition in July of Queen Anne's Gate Asset Management, of which he was managing director.

Mr John Craig is to relinquish the position of vice-chairman of Jupiter Tyndall. Mr Craig had been responsible for Tyndall's banks until their sale

in August, but he will remain on the board with responsibility for the group's treasury operations.

Another director, Mr James D'Albiac, is to stand down as he is approaching retirement age. He will continue on a part-time basis as a director of Jupiter Asset Management, the UK operating subsidiary.

Last week Jupiter Tyndall said it was in talks with "a small number of parties" about its possible acquisition.

Lloyds Abbey Life

Mr James Joll has resigned as a non-executive director of Lloyds Abbey Life with immediate effect.

Mr Joll is finance director of Pearson, owner of the Financial Times.

Dr Anne Hogg, chairman of the Girls' Public Day School Trust, becomes a non-executive director of the company as January 1 1995.

Debenham Tewson

Debenham Tewson & Chinnocks Holdings, one of the UK's largest estate agents and surveyors specialising in commercial property, is to divide the group chief executive's responsibilities following the retirement of Mr Anthony

Turnbull on December 31. The role will now be shared between Mr Tim Smyth, currently group finance director, who will become group finance and operations director, and Mr Mark Struckert, managing director of London operations, who will become group managing director.

■ HENRI DE VILLIERS is resigning from the board of Capital & Counties.

DR CONRAD STRAUSS has been appointed a non-executive director. He is also chairman of Standard Bank Investment Corporation and a director of Liberty Life.

■ CHRISTOPHER KING has been appointed a non-executive director of Avon Rubber. He recently retired as chairman of BP Europe.

Telemetrix £2.5m sale

Telemetrix, the supplier of specialised electronic components, has sold its Zimbabwean interests to Trans Zimbabwe Industries for £2.5m cash.

The businesses sold include Consolidated Lighting, a manufacturer and distributor of lighting products, and Standard Telephone & Cables (Zimbabwe), a supplier of telecom-

munications equipment.

In the six months to June 1994, net profits of the Zimbabwean operations were £168,000 and the attributable net asset value was £1.5m.

Mr Tim Curtis, Telemetrix chief executive, said the proceeds of the sale would be used to develop the company's other businesses.

Approval for TBI acquisition

Shareholders of TBI, the property investment and development company, have approved the acquisition of a portfolio of investment properties from Mr Peter Thomas

and other connected parties for 27.98m shares.

The EGM also approved an increase in the authorised share capital pursuant to the acquisition.

Hunterprint acceptances at 78.8%

Quebecor Printing, the second largest commercial printer in North America, has received valid acceptances or undertakings in respect of 45.7m ordinary shares in Hunterprint at 2p per share.

This represents about 78.8 per cent of the issued ordinary capital of the company, the UK's biggest independent printer of national newspaper supplements.

No acceptances have been received in respect of the pref-

NEWS DIGEST

erence shares. The offers have been extended until January 11.

Radiant Metal

Radiant Metal Finishing, the electroplating and metal finishing company and residential property developer, saw losses for the six months to end August deepen from £24,000 to £71,000, despite a continued increase in turnover, up from £540,000 to £560,000.

Losses per share increased from 1.79p to 5.25p and there will be no decision about a dividend until the year-end.

The company blamed its problems on depressed activity in the fields in which it operates.

Gartmore Value

Dealings in the ordinary shares of Gartmore Value Investments were suspended at 24½p following the announcement of the appointment of a liquidator for the voluntary winding up of the company.

The directors also declared a special interim dividend per ordinary share of 0.3615p, which equals the entire net distributable income of the company.

The offers made by Greig, Middleton & Co on behalf of Gartmore Shared Equity Trust for all of the ordinary and zero preference shares of Gartmore Value Investments not already owned by GSET have been declared unconditional.

CROSS BORDER M&A DEALS

BIDDER/INVESTOR	TARGET	SECTOR	VALUE	COMMENT
Deutsche Bank (Germany)	ITT Commercial Finance (US)	Financial services	£2bn	Deutsche continues international expansion
Investor Group (Int'l)	Adidas (Germany)	Sports equipment	Est \$568m	Adidas changing hands again
Zurich Insurance (Switzerland)	Home Holdings (US)	Insurance	£316m	Replaces earlier refinancing
SCA (Sweden)	Scott Health Care (US/Sweden)	Healthcare products	£27.8m	Buying out joint venture partner
China Trust Commercial Bank (Taiwan)	Trans National Bank (US)	Banking	£19.2m	First of its kind
Investor Group (US/Finland)	Nokia Aluminium (Finland)	Aluminium products	£17.6m	Nokia continues disposals
William Baird (UK)	Unit of SCA (Sweden)	Clothing	£14.5m	Non-core disposal
Prudential Corp (UK)	Thai Sothakit Life (Thailand)	Insurance	£13m	Prudential taking initial 24.99%
Samas (Netherlands)	Schaeff (Germany)	Office furniture	n/a	Market leadership move
Unilever (UK/Netherlands)	Frudesa (Spain)	Food	n/a	France's Danone disposing

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Southern Europe downside limited Italian and Spanish bonds prices may have seen the worst

Gelişen Pazarlarda
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FINANCIAL TIMES MARKETS THIS WEEK

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What will go wrong with conventional punditry about global market trends in 1995? Probably the one thing that it is vital to get right: Wall Street. US equities have been overvalued for so long on any sane view of earnings or dividend prospects that investors' continuing suspension of disbelief has come to seem a natural condition of market life. The Dow Jones Industrial Average has survived both the bond market shakeout and a near-doubling of short-term interest rates since February 4, falling less than 3.5 per cent since then.

The natural reaction of analysts is to juggle with value assumptions until they come up with something that suggests the market is cheap after all. Or they lead the wisdom of retail investors who support the current market level on a longer term view than that of professional fund managers. Yet there could be a simpler explanation for the perpetuation of this high wire act - namely that US monetary policy, despite the recent rate increases, is still far from tight.

In today's deregulated banking markets, history is a poor guide to the scale of the inter-

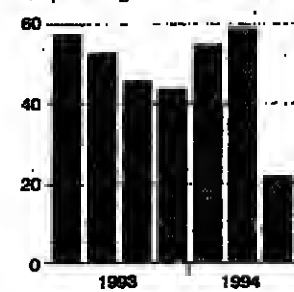
est rate rises needed to stop an economy that is growing faster than its sustainable long-run trend. The only safe assumption, in a world of fewer quantitative controls over bank lending, is that interest rates at their cyclical peak will have to be much higher than the post-war average.

Also suggestive is the accompanying chart of US bank lending. The latest quarter on quarter increase is the fastest for years, and in the six months to October outstanding industrial and commercial loans rose by more than 8 per cent. The growth hungry US banker is once again looking for opportunities to perpetrate folly. It may thus take more to rein in the US economy than the markets assume. If so, there could be a shock waiting for equities.

A more fundamental point is that US monetary policy is increasingly being framed as much in response to the aberrations of the banks as the state of the real economy. Moral hazard, in the shape of a deposit insurance system that delivers funds to the banks

The homing instinct

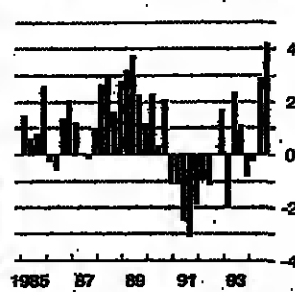
UK institutions net investment in UK and overseas equities as a percentage of total investment



Source: GSO, Financial Times

US commercial banks lending

Quarter on quarter percentage change, not annualised



Source: Barclays de Zoete Wedd

regardless of their lending record or prospects, has opened up a structural crack in the system. By loosening monetary policy excessively to bail out the banks in the present cycle, Mr Alan Greenspan, Fed chairman, not only fostered a bond market bubble; he also ensured more problems for the next cycle.

True, the novel fashion for pre-emptive interest rate

increases will help mitigate the damage. Yet the undermining of prudential behaviour in banking is another factor making for bigger swings from peak to trough in the monetary cycle. The fault is not Mr Greenspan's. All cures will simply lead to further complications until the legislators are prepared to change the distortive incentives that drive bankers' behaviour. Investors,

meanwhile, need to watch the banks very closely.

Total return in local currency to 29/12/94

% change over period

	US	Japan	Germany	France	Italy	UK
Cash	0.11	0.04	0.10	0.10	0.15	0.08
Week	0.50	0.20	0.44	0.45	0.71	0.47
Month	3.75	1.81	6.25	5.63	8.00	5.13
Bonds 3-5 year	0.18	0.28	-0.84	-0.32	-0.13	-0.86
Week	0.45	0.70	-0.57	-0.32	-0.43	-0.39
Month	-3.05	-1.44	-1.01	-2.29	-0.41	-1.96
Bonds 7-10 year	0.26	0.15	-0.24	-0.88	-0.41	-1.31
Week	1.28	1.08	-0.53	-0.85	-0.75	-0.85
Month	-1.19	-4.14	-2.48	-5.54	-5.57	-7.83
Equities	0.3	0.6	-1.0	-2.2	-0.3	-0.6
Week	1.5	3.3	1.6	-2.0	1.2	0.5
Month	1.2	3.2	-6.5	-13.5	4.8	-7.6

Source: Cash & Bonds - John Deane, The FT-Actuaries World Indices are jointly owned by the Financial Times Limited, Goldman Sachs & Co. and NatWest Securities Limited.

Gold market looks for pointers

Gold Fields Mineral Services, which produces the authoritative annual survey of the global gold market, presents an interim "update" on Wednesday.

Last September GFMS said there were good reasons to believe that the gold price would break out of the relatively narrow trading range in which it appeared to be locked - either downwards or upwards. But this did not happen. For most of 1994 gold traded between \$370 and \$400 a troy ounce, and the industry

will be looking for pointers from GFMS about what 1995 has in store.

The World Gold Council, like GFMS a producer-financed organisation, recently pointed out that rising interest rates were encouraging more gold-mining companies to hedge their future production and this appeared to be putting a "cap" on any price rise above \$400 an ounce.

This factor is also highlighted by Mr Ted Arnold, Merrill Lynch's analyst, in the financial services group's

weekly futures report. He suggests more and more producers are looking to sell up to five years forward "if and when prices move into the \$382 area and above".

This should be enough to "cap" the market, says Mr Arnold, but should the price rise to \$390 to \$400, there would be a big drop in demand from the Middle East and Asia and gold sales from the Middle East.

London Metal Exchange dealers will be hoping for a lively start to the year when

trading resumes tomorrow. Leading LME contracts generally ended 1994 near their recent long-time highs, and dealers said last Friday that the lack of an end-year sell-off suggested that all the metal markets were likely to push higher in the new year, when speculative interest should pick up.

Copper, aluminium and nickel were the liveliest performers at the exchange in 1994, ending with gains of 75 per cent, 74 per cent and 69 per cent respectively.

On the one hand is the Bundesbank approach of pur-

Economics Notebook

A joust with the Bundesbank

The entry of Sweden, Finland and Austria into the European Union will breathe new life into a complex and potentially explosive debate among EU central bankers on Europe's monetary future.

For while Austria's monetary policy is closely aligned to that of Germany and the scaling is set to join the European Exchange Rate Mechanism, Sweden and Finland both have floating currencies and, like Britain, frame their monetary policies in the pursuit of explicit inflation targets.

That means Bank of England officials will find more like-minded colleagues in the councils of the European Monetary Institute (EMI) as this forerunner of the planned European central bank prepares the ground for a single European currency and monetary policy as part of economic and monetary union (EMU) later in this decade.

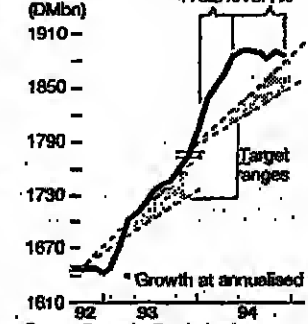
Mr Alexandre Lamfalussy, the EMI president, has set the ambitious goal of completing preparations for a "turnkey" European central bank and monetary policy by the end of 1996 so EMU can come into being by 1997, the first Maastricht Treaty deadline, if the political will exists.

Deciding the monetary policy for EMU is one of the main tasks facing the EMI. While appearing arcane, it is also probably the most contentious matter on the EMI's very full agenda: the type of monetary policy will determine how interest rates are set in a single currency Europe.

The current debate pitches the Bundesbank against the Bank of England. According to one EU central banker, this year will be one of intellectual jousting. But it may also determine which way the decision eventually falls.

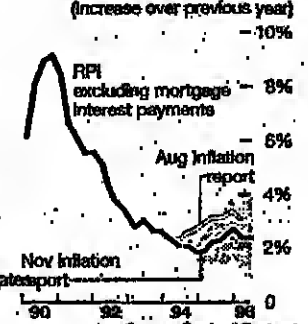
On the one hand is the Bundesbank approach of pur-

German M3 versus...



Source: Deutsche Bundesbank

...UK inflation targeting



Source: Bank of England

suing price stability and setting interest rates by following an intermediate monetary target. The Bundesbank was the first central bank to publish a monetary target in 1974, and it has done so ever since, although the nature of its target has varied over time.

In the process, the German central bank has developed enviable credibility as an inflation fighter. But as Mr Otmar Issing, Bundesbank chief economist and council member, admits, it has hit its monetary target in only 10 of the past 20 years.

The Bundesbank approach has been pragmatic, particularly when it cut interest rates in the first half of 1994 while M3, its chosen aggregate, was massively overshooting the 4 to 6 per cent annual target growth range.

That overshoot damaged the reputation of the Bundesbank's policy abroad. But as the ECB's central banker, this year will be one of intellectual jousting. But it may also determine which way the decision eventually falls.

On the one hand is the Bundesbank approach of pur-

dor. This, and a fall in German inflation below 3 per cent, encouraged the Bundesbank last month to announce a new 4 to 6 per cent growth target for M3 in the year to the final quarter of 1995. Mr Hans Tietmeyer, the Bundesbank president, confirmed M3 was the "key reference variable for monetary policy".

Since Britain's forced exit from the Exchange Rate Mechanism in September 1992, the UK's monetary policy has been based on an explicit target for "underlying" inflation and interest rates set with reference to numerous economic indicators. The Bank of England looks two years ahead to prospective inflation and attempts to determine whether current policies and trends are compatible with its target for the retail prices index, excluding mortgage interest payments (RPIX), at present 1 to 2.5 per cent by the end of this parliament.

The Bank produces quarterly inflation reports to inform the public debate about inflation and guide the monthly monetary meetings between Mr Kenneth Clarke, the chan-

cellor, and Mr Eddie George, the Bank governor. Although other factors played a part, last year's UK interest rate rises came in the months following an inflation report.

The new strategy has started well. Underlying inflation has been below 3 per cent for 14 months, the longest period since 1961. Inflation expectations have declined. But there are some doubts. Inflation targeting improves and has yet to be tested over a full economic cycle. As indicated in the chart, the Bank's short-term forecasts about inflation have been too pessimistic in the past. The Treasury believes the UK inflation cycle has now turned. With growing upward pressure on prices, the UK will probably find it increasingly difficult to hit the 2.5 per cent inflation target in 1997.

However, the UK experience is taken seriously on the continent. Spain adopted inflation targeting last autumn. Moreover, Mr Tietmeyer felt it necessary to refer to the growing use of inflation targets abroad when announcing the latest M3 target, if only to reject the approach for Germany.

Resolving the debate over future EU monetary policy will largely depend on how the UK and Germany fare with their own methods of setting interest rates and controlling prices in the next 18 months. The arguments between the two appear finely balanced, prompting Mr Lamfalussy, among others, to wonder whether there could not be a compromise.

An alternative would be for the EU central bankers on the EMI council to agree that the European Central Bank should take the final decision on monetary policy once it has been set up in the third and final stage of EMU. That may seem messy, but it would provide more time to judge the respective merits of the German and UK approaches.

Peter Norman

12 mo period	12 mo period	12 mo period	12 mo period	12 mo period	12 mo period
0000	0.06	0.23	0.23	0.23	0.23
0100	0.29	18.08	21.27	21.27	21.27
0200	0.13	0.13	0.13	0.13	0.13
0300	0.13	0.13	0.13	0.13	0.13
0400	0.13	0.13	0.13	0.13	0.13
0500	0.13	0.13	0.13	0.13	0.13
0600	0.13	0.13	0.13	0.13	0.13
0700	0.13	0.13	0.13	0.13	0.13
0800	0.13	0.13	0.13	0.13	0.13
0900	0.13	0.13	0.13	0.13	0.13
1000	0.13	0.13	0.13	0.13	0.13
1100	0.13	0.13	0.13	0.13	0.13
1200	0.13	0.13	0.13	0.13	0.13
1300	0.13	0.13	0.13	0.13	0.13
1400	0.13	0.13	0.13	0.13	0.13
1500	0.13	0.13	0.13	0.13	0.13
1600	0.13	0.13	0.13	0.13	0.13
1700	0.13	0.13	0.13	0.13	0.13
1800	0.13	0.13	0.13	0.13	0.13
1900	0.13	0.13	0.13	0.13	0.13
2000	0.13	0.13	0.13	0.13	0.13
2100	0.13	0.13	0.13	0.13	0.13
2200	0.13	0.13	0.13	0.13	0.13
2300	0.13	0.13	0.13	0.13	0.13
2400	0.13	0.13	0.13	0.13	0.13

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NATIONAL AND REGIONAL MARKETS
Figures in parentheses show the number of lines of stock

Stock	Index	31/12/93	Index	Index	31/12/93	Yield	Index	Index	Index	High	Low	Average			
Australia (89)	171.84	-2.9	182.68	108.24	138.31	-10.0	3.81	174.21	165.61	109.77	140.45	146.14	188.15	161.21	188.08
Austria (18)	182.74	-1.2	173.18	115.89	147.26	-11.7	1.10	182.56	173.85	115.03	147.18	147.18	188.82	167.48	185.05
Belgium (26)	188.43	-3.5	188.43	108.22	138.73	-12.21	-8.8	4.18	188.21	159.90	106.99	135.61	132.21	177.04	160.78
Canada (103)	129.39	-4.7	122.82	81.00	104.27	151.43	0.9	2.63	129.32	122.56	81.23	103.94	131.24	145.31	120.54
Denmark (33)	251.81	1.9	238.63	158.81	202.91	208.42	-8.8	1.43	253.00	240.51	158.42	203.97	209.54	275.79	236.91
Finland (24)	185.98	80.9	178.23	117.28	148.56	184.97	23.5	0.78	186.91	178.71	117.14	148.88	184.97	201.41	182.20
France (102)	183.55	-7.1	154.99	103.14	151.79	158.91	-18.0	3.13	183.55	155.77	103.14	151.93	151.93	183.55	103.14
Germany (59)	143.31	2.2	135.81	80.38	115.48	115.48	-8.8	1.80	141.35	134.39	80.07	113.96	113.96	180.40	152.37
Hong Kong (59)	308.07	205.08	205.08	202.82	383.98	-30.3	3.82	308.07	205.08	202.82	383.98	308.07	205.08	202.82	383.98
Ireland (14)	208.55	11.5	195.44	130.08	158.18	188.18	1.8	3.40	208.55	130.08	158.18	188.18	208.55	130.08	158.18
Italy (59)	75.39	8.8	71.35	47.49	60.88	91.22	4.0	1.74	73.57	89.94	45.36	50.31	86.96	100.00	77.58
Japan (69)	158.04	20.6	148.73	98.38	128.47	98.98	7.8	0.78	156.71	148.88	98.74	126.34	97.76	170.10	128.53
Malaysia (27)	479.37	-19.0	454.28	302.32	388.30	471.43	-23.2	1.78	479.37	302.32	302.32	388.30	471.43	479.37	302.32
Mexico (19)	1416.15	-40.7	1342.03	833.10	1141.18	7825.58	-5.0	1.34	1435.21	1343.38	833.10	1141.18	7825.58	1416.15	1343.38
Netherlands (18)	216.88	8.9	205.53	136.78	174.77	171.77	-2.7	3.36	216.88	206.26	136.78	174.77	171.77	216.88	136.78
New Zealand (14)	70.45	3.8	68.77	44.43	50.77	58.44	-8.3	5.01	70.45	68.77	44.43	50.77	58.44	70.45	68.77
Norway (29)	213.17	18.7	202.01	134.44	171.77	188.71	8.7	1.88	213.17	202.01	134.44	171.77	188.71	213.17	202.01
South Africa (59)	336.71	26.0	310.06	212.25	271.33	299.88	-18.7	2.90	336.71	310.06	212.25	271.33	299.88	336.71	310.06
Spain (28)	181.96	-5.3	181.96	103.14	151.79	158.91	-18.0	3.13	181.96	103.14	151.79	158.91	181.96	103.14	151.79
Sweden (34)	205.11	3.1	176.54	104.18	133.11	134.32	-0.1	1.52	204.71	159.59	103.78	126.42	126.42	199.37	159.59
Switzerland (47)	181.19	1.1	181.19	103.14	151.79	158.91	-18.0	3.13	181.19	103.14	151.79	158.91	181.19	103.14	151.79
Thailand (48)	156.76	-1.0	148.99	89.73	127.48	154.11	-1.1	4.18	156.76	148.99	89.73	127.48	154.11	156.76	148.99
United States (204)	187.16	-5.0	187.16	103.14	151.79	158.91	-18.0	3.13	187.16	103.14	151.79	158.91	187.16	103.14	151.79
UK (513)	150.15	-1.1	177.50	116.61	151.30	176.77	-5.5	2.98	150.15	177.50	116.61	151.30	176.77	150.15	177.50
Europe (862)	174.21	-2.9	165.09	105.65	140.39	145.84	-2.8	2.89	174.21	165.09	105.65	140.39	145.84	174.21	165.09
France (102)	188.98	0.3	180.11	106.56	136.15	150.92	-8.8	3.1	188.98	180.11	106.56	136.15	150.92	188.98	180.11
Norway (29)	224.48	1.8	213.77	141.67	160.88	210.93	4.3	1.14	224.48	213.77	141.67	160.88	210.93	224.48	213.77
Pacific Basin (738)	184.30	1.3	155.70	102.62	132.40	107.57	2.0	1.15	184.30	155.70	102.62	132.40	107.57	184.30	155.70
Asia (103)	184.30	1.3	155.70	102.62	132.40	107.57	2.0	1.15	184.30	155.70	102.62	132.40	107.57	184.30	155.70
North America (816)	184.14	1.2	174.00	113.13	148.38	180.37	-1.0	1.99	184.14	174.00	113.13	148.38	180.37	184.14	174.00
Europe & UK (504)	161.36	2.8	143.43	95.45	121.96	139.42	-7.8	2.49	161.36	143.43	95.45	121.96	139.42	161.36	143.43
World Excl. Japan (252)	-16.93	225.77	160.24	191.98	208.47	-21.9	3.19	208.10	227.50	160.24	191.98	208.47	208.10	227.50	160.24
Pacific Excl. Japan (252)	-16.93	225.77	160.24	191.98	208.47	-21.9	3.19	208.10	227.50	160.24	191.98	208.47	208.10	227.50	160.24
World Excl. UK (2014)	-170.98	4.3	182.01	107.61	137.78	142.65	-2.5	2.00	182.01	107.61	137.78	142.65	142.65	182.01	107.61
World Excl. Japan (1754)	183.63	-2.2	174.02	115.61	147.97	174.78	-5.5	2.98	183.63	174.02	115.61	147.97	174.78	183.63	174.02
The World Index (2222)	-173.07	3.8	164.01	110.25	136.49	145.73	-2.1	2.33	173.07	164.01	110.25	136.49	145.73	173.07	164.01

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Data source: Dec 31, 1998 = 100; France Dec 31, 1997 = 110.00; US & Index 30.77; Pound Sterling and 94.94; (Local) Nordic Dec 30, 1998 = 100.00; (Local) Asia Dec 30, 1998 = 100.00; (Local) Europe Dec 30, 1998 = 100.00; (Local) Japan Dec 30, 1998 = 100.00; (Local) UK Dec 30, 1998 = 100.00; (Local) World Dec 30, 1998 = 100.00

EQUITY MARKETS: This Week

NEW YORK

Lisa Branstetter

Jobs data may be signal of Fed action

Market players will be looking to start the new year with a bang after last year's feeble finish that saw a late-year rally cut short by uncertainty surrounding the financial crisis in Mexico. As trading begins tomorrow, the key question for investors is whether the Federal Reserve will raise interest rates again before the January 31 meeting of its open market committee.

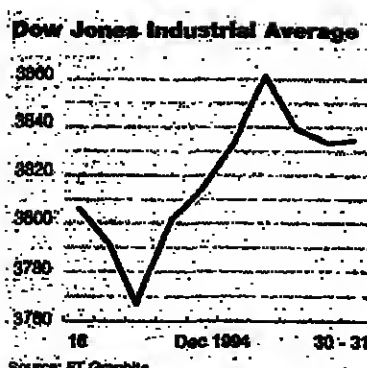
The market may be shaky this week as investors return to work to sort through the implications of the drop in value of the Mexican peso and consider the possibility of another rate increase by the Fed.

A consensus on Wall Street holds that the Fed will boost rates in the first quarter of 1995, and Wall Street is hopeful the Fed will be able to slow growth without throwing the economy into recession.

However, Mr Robert Brusca, chief economist at Nikko Securities warns: "Soft landings have been as scarce as hens' teeth in the history of the Federal Reserve."

One signal of possible Fed action will come at the end of this week when the Labour Department releases jobs figures for December. A consensus of economists expects a slight increase in the unemployment rate - to 5.7 per cent from 5.6 per cent in November - but some believe continued jobs growth could push the figure down to 5.5 per cent.

S.G. Warburg economists believe the jobs data might spur the Fed to tighten monetary policy quickly. "If job growth proves as robust as we anticipate, the



key December payroll report may prove the catalyst for a rare interest-meeting Federal Reserve policy adjustment," the bank said.

Another factor that could throw the market off would be a strong report of December business activity from the National Association of Purchasing Managers. Economists are divided about whether the index will show a modest increase or decrease, but most expect business activity to be close to the reading posted for November.

Analysts at Smith Barney think the NAPM index will edge down slightly to 59.0 due to decreases in the new orders and employment sub-indices. In November, the NAPM index hit a cyclical high of 61.2, the highest figure in more than 10 years.

Although the Federal Reserve Bank of Philadelphia reported slower economic activity for December, some economists still see an increase in the NAPM index because they do not believe trends in the north-east are representative of business activity in the nation as a whole.

Economists continue to see inflation at earlier stages in the economy. For example, most economists believe factory orders will rebound to 2.3 per cent for November.

LONDON

Steve Thompson

Looking for a lead from New York

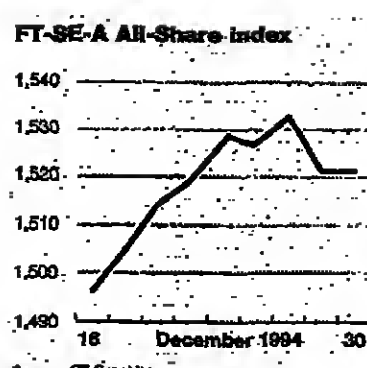
After so many ill-fated attempts by the FT-SE 100 to breach the 3,100 level - and more importantly to hold above it - it is perhaps asking too much of the market to blaze a trail this week as the new year unfolds.

And there are precious few company results for the City's analysts, sales teams and market-makers to get their teeth into. Economic news, too, is fairly thin on the ground, with provisional M0 money supply figures for December one of the few important details due for release.

So, once again, the UK equity market will be seeking a lead from elsewhere and, as always, all roads lead to New York where a number of important economic news items are scheduled. Of these, the National Association of Purchasing Managers Index for December and the monthly non-farm payrolls will be closely scrutinised for evidence on inflationary pressures.

Germany also comes into the big picture, with the Bundesbank Council meeting on Thursday to discuss monetary policy. No change is expected in German rates, but dealers were alerted to the potential for quick shifts in trends after French banks moved to increase their base rates last Thursday.

Left to its own devices, London could well make progress based on sound UK economic fundamentals, such as strong but not runaway growth, low inflation, an increasingly healthy balance of payments picture, a shrinking public sector borrowing requirement and rising corporate earnings and dividends.



Analysts are forecasting earnings growth of 13 per cent-plus and dividend growth of about 10 per cent.

A number of key sectors could provide the spark needed to ignite the rest of the market. The retailing giants will already have cashed up their tills and the City is looking for confirmation of initial soundings, which are said to have pointed to bumper sales, possibly even breaking previous records.

Top analysts caution against over-optimism, but nevertheless have generally shaken off the worst fears of late November-early December. Happily for bulls of the stores sector, the post-Christmas sales are said to have started very well. Storehouse, Dixons, Searns and Argos are expected to reveal Christmas trading trends shortly, followed by Alders, Kingfisher and Burtons.

Midnight last Saturday was the witching hour for the water stocks, whose protective ring fence in the form of the government's golden shares was dismantled. If recent speculation is to be believed, this could herald a bonanza of bid activity, possibly involving the regional electricity stocks - seen by many utilities analysts as takeover targets, especially after their own golden shares are removed on March 31.

Flood of international issuance set to continue

Capital markets' capacity could be put to the test



The capacity of the international capital markets to absorb growing volumes of equity issues may be put to the test this year. Despite some signs of indigestion last year, bankers are preparing to handle a string of deals in the first half of 1995, with companies ranging from European heavyweights such as Britain's PowerGen and National Power to emerging market hopefuls such as Russia's Gazprom vying for the attention of investors.

Figures from Euromoney Bondware and IFR Securities show that international equity issuance has remained at a historically high level, in spite of difficult conditions in the markets, with more than \$45bn raised during 1994.

According to Euromoney International equity issues accounted last year for more than 10 per cent of all capital raised through bond and equity issues. IFR shows that international equity issuance has increased by nearly four times since 1990.

Demand for equity capital is coming from two principal sources - the needs of the emerging economies of Asia, Latin America and increasingly Africa, the middle east

and eastern Europe; and the continuing drive by governments in the developed economies to privatise, especially basic infrastructure and utilities businesses.

Last year saw a big jump in activity in Asia and the Far East, where - according to IFR - issuance rose from \$7.1bn in 1993 to \$12.4bn. The most significant increase took place in India, where 44 companies raised \$2.9bn, 10 times the levels achieved in 1993. Fourteen Indonesian companies raised \$1.2bn - although \$775.6m of that was accounted for by the issue by Indosat, a telecommunications concern, in October. Likewise, Pakistan Telecom accounted for \$718.5m of the \$994.6m raised by local companies during the year.

Chinese companies raised \$2.4bn (marginally more than the \$2.3bn of 1993), and companies from South Korea (with issuance up from \$352.2m to \$1.2bn), the Philippines (up from \$119m to \$1bn) and Thailand (\$68m to \$379.3m) were all active.

Issuance by Latin American companies slackened during the year, falling to \$4.61bn from \$5.9bn in 1993. However the decline reflects the impact on the 1993 figures of one particularly big issue - a \$2.3bn issue for YPF of Argentina - and masks an increase in the actual number of issues from

50 to 82. Everywhere apart from Argentina and Mexico - where issuance fell to \$1.7bn from \$2.6bn in 1993 - there was a significant increase in activity, with nine issues alone from Colombia and 11 from Brazil. Three companies from Peru and two from Uruguay also came to the markets.

In Europe, two big telecommunications issues took the eye. Denmark's Teledanmark raised \$3bn at the end of April, while KPN of the Netherlands raised a further \$1.93bn in June.

French companies were some of the bigger issuers, with \$4.1bn (\$3.4bn in 1993) raised during the year. A slice of Germany's Lufthansa was sold to investors in September and Scandinavia continued to make heavy demands on the markets. Eighteen Swedish companies raised \$2.86bn (against \$1.2bn in 1993) and 14 Finnish companies raised \$1.3bn.

Richard Lapper

* Euromoney and IFR present different figures for international equity issuance in 1993 so their data show different pictures of the year-on-year trend. According to Euromoney, issuance reached \$49.9bn in 1994, compared with \$36.3bn in 1993. IFR Securities reports international equity issues of \$45.0bn, compared with \$33.2bn registered for 1993.

OTHER MARKETS

STRATEGY

There is a marked absence of corporate news planned in the coming week to stir the markets, while on the economic side, Thursday's Bundesbank council meeting is not expected to result in any change in key rates.

James Capel has said it expects the next move in rates to be up - but not until the second quarter of the year. However, in the absence of concrete developments, investors can always turn to the market strategists to provide inspiration for the week and the year ahead.

Baring Securities expects 1995 to be a much better year

for equity investors. "Strong economies and strong stock markets rarely go together," it says. "Late 1994 and early 1995 will see the best performance from the world economy for a decade and correspondingly, some of the worst stock market performance. As world growth eases through 1995, equity performance will improve."

Baring warns that further US interest rate rises could leave equities 10 to 15 per cent lower over the next few weeks before a slowing, but still growing, US economy, rather than an explicit monetary easing by the Fed, releases sufficient liquidity to underpin, and ultimately raise, world share prices.

It recommends that equity

investors should build exposure to Japanese shares. "For the second year running, Japan looks among the best major stock markets."

Baring says that emerging markets' portfolios should be overweight in southern and eastern Europe, the Indian subcontinent and sub-Saharan Africa. Within Latin America it overweights Argentina and Venezuela and recommends that developed market equity portfolios should be overweight in Japan and underweight in the US.

The UK stands out as a clear favourite within Europe and is worth revisiting in spite of the political weakness of the government, says Baring. Monetary conditions remained

buoyant and stock market exposure has fallen to more reasonable levels. It is also gradually increasing exposure to French equities while slightly trimming its weighting in Germany, although both markets remained overweight.

Paris has been finding favour elsewhere. Hoare Goveit says that France and the Netherlands are its favourite markets on a six-month view, noting that Paris has underperformed consistently for the past two years.

UBS is another supporter, favouring France, Germany and Switzerland. Other analysts expect that the market, which ended a bad 1994 losing 17 per cent, will

probably recoup most or all of its 1994 loss in the coming year and outperform the German equities market.

Solid investment and earnings growth, and low inflation forecast for 1995 would more than offset nervousness ahead of the French presidential election in the spring.

"We're going to go higher, but 1995 probably won't be a fantastic year for the market as a whole," says Mr Michael Diehl, at Banque Paribas.

"If we get a double-digit return from where we ended 1994, the market will be satisfied," Mr Diehl says, adding a forecast that the CAC-40 index would end 1995 at 2,200, which would leave the

index 68 points below where it stood a year ago.

The coming year will see "the return of reason to the market," says Mr Eric Taz-Bernard at Indosuez Asset Management, although after the market's poor performance in 1994, he thinks investors will remain hesitant for a time.

Mr Jerry Evans at Kleinwort Benson says: "We've seen France rejected this year in favour of such markets as Germany and Sweden. At the same time, the French market suffered from new issues, as part of the government's share privatisation programme, which kept people away."

He predicts that investors will switch next year from

German to French equities, attracted by forecasts of an 8 per cent rise in business investment, a 3 per cent economic expansion and 40 per cent corporate earnings growth in France. "You could get a switch later in the year to the pre-1992 situation, where the French market was higher than the German market."

TOKYO

With no trading until Wednesday, most investors are expected to remain in holiday mood, and absent from the market until next Monday, writes Emilio Terrazano.

However, with the Year of the Dog - which has been just that for many Japanese

investors and brokers - now safely behind them, many market participants are hoping to begin the Year of the Boar on a more positive note.

Since the Tokyo Stock Exchange was established in 1899, the Years of the Boar have brought luck to investors. Japanese shares have performed consistently well only in the Year of the Boar and the Year of the Rat which follows it in the astrological calendar.

UBS in Tokyo notes that the Topix index of all first section stocks rose by 79 per cent in 1989 and 1990, 170 per cent in 1971-72 and 54 per cent in 1983-84.

Compiled by Michael Morgan

EMERGING MARKETS: This Week

The Emerging Investor / Matthew Kaminski

A jump-start for the instant markets

On Riga's imposing Cathedral Square, the fin de siècle stock exchange building is under reconstruction. After five decades, Latvia's national exchange will return next year to its pre-war home.

Latvia is joined by the Baltic neighbours, Estonia and Lithuania, in the drive to set up a well-regulated and stable equity market. The legal framework is in place for all three, economic reforms are on course and returns in the small countries potentially large.

Lithuania, the biggest in size and population, is at present the only country to have a functioning secondary market. Monthly turnover at the Vilnius stock exchange, which opened 14 months ago with only 18 securities, jumped from Lit4.7m (\$1.1m) in August to Lit33.7m in November on 218 securities, mostly banks and investment funds which capitalised on a successful mass voucher programme that put 90 per cent of state property in private hands.

Warsaw's exchange also started modestly before rising 700 per cent in real-dollar terms last year. Yet, while returns are attractive, the slope is unlikely to be as steep in Vilnius. Foreign investment so far has been disappointing at about \$150m this year. "I don't think we have very much price speculation, like Warsaw," says Ms Dalia Jasulityte, a member of the stock exchange board.

Mr Alexander Levinsonas, a partner at Coopers & Lybrand, also notes that Lithuania has for months failed to pass auditing legislation that would force companies to report on a standardised system.

The government's bond issues are, at present, super bets: six short-term Treasury bills currently give a 19.6 per cent annualised return.

Fixed income investments are also the best and for now the only option in Latvia. Government treasury bills offer 23 per cent annualised return, although only 30m were issued. The banking sector in Riga, the region's largest city and pre-war financial centre, is booming and offers high interest rates, with the implied risks. Deposit certificates at Deutsche Letische bank stand at 24 per cent, but less established ones offer 30 per cent.

"I would create a small portfolio on bank deposits, similar to junk bonds," says Mr Michael Henkel of Deutsche Letische. "It wouldn't hurt to put some money here. It's not as chaotic as Russia. But it's Latvia, and institutional investors are not that interested yet."

Size is not the only deterrent. Many western investors do not wish to play by eastern rules. "What it comes down to is a lack of credible partners," says Mr Anthony Tse, formerly with LDB Securities, a Riga-based investment fund listed on the Irish Stock Exchange.

New western banks such as

Ten best performing stocks

Stock	Country	Friday 30/12/94	Week on week change	%
Sul Gas North	Pakistan	1,234.4	0.2261	20.58
Fomento Economico Mexicano	Mexico	2,839.6	0.4364	19.81
Arcor Celulose (Pir)	Brazil	2,714.3	0.4048	17.53
Companhia Vale Do Rio Doce	Brazil	0.1913	0.0271	16.23
Yus Longwing Motor	Taiwan	0.8825	0.1175	15.38
Pacifico Peruano Sula	Peru	1,192.1	0.1402	13.39
Saguros Tranquilidad	Portugal	36,758.4	3.2551	9.72
China Airlines	Taiwan	14,935.7	1.2787	9.58
Indus Motor Company	Pakistan	1,841.1	0.1559	9.25
		0.8775	0.0721	8.95

Société Générale slowly setting up offices in Riga in the future can serve as custodians - although now the combined capital of all Latvia's banks, at around \$150m, is the minimum required by a single custodian in the US. But banking, boosted by capital flight from Russia, is the country's regional niche.

An equity market is the missing piece. Latvia ended its first international tender with 44 companies up for sale and, with a voucher scheme for Lit1.7bn (\$84m) on offer, the government claims 75 per cent of state property will be off the books by the end of 1995.

"We are not an emerging but an instant market," says Mr Karlis Cerbulis, president of the Riga Stock Exchange. "We have to go from a non-existent situation to a managed, organised securities market." A secondary market will be opened in a few months "as long as the privatisation of Latvia's industrialised economy gives

enough to trade".

The market will complement the existing and well-functioning commodities exchange, trading Russian raw materials, and Latvia's other attractions, including its strategic trade location with good east-west routes, its openly convertible and stable currency, and its low inflation.

An interesting longer-term idea is the option for companies to be listed on one Baltic stock market but traded on both, as with Singapore and Kuala Lumpur. Riga and Vilnius will both be using the Paris bourse model, which eases cross-listing.

Stock markets are driven by economic growth; all three Baltic economies are recovering, with growth ranging from 1 per cent of gross domestic product in Lithuania to 6 per cent in Estonia. But they are still only recovering.

The currency regimes are intended to attract western investors. The Latvian lat is floating, fully convertible, and appreciating against the dollar. Lithuania and Estonia have pegged their currency to the dollar and D-Mark respectively. So far, both governments say devaluation is not imminent - the Estonian constitution forbids it - but political pressures may heighten in the future.

The Estonian, ironically, is the former Soviet Union's economic success story, attracts the bulk of western investment but has the least well developed equity markets. Local and foreign capital has gone into companies, via Estonia's Treuhand-model privatisation scheme, or abroad. Its hands tied by a currency board, the central bank has also been unable to check an upsurge in inflation fed by price increases on public utilities and by the inflow of foreign capital caused by the doubling in exports and investment.

To jump-start the market, a voucher scheme was initiated last month to sell off minority stakes in 40 large companies holding an estimated EK1bn (DM25m) in equity.

For now, Estonia's market lacks liquidity. As a result, says Mr Henrik Iagata, an analyst in the Exchange Association of Estonia, "the only motivation for owning securities is their high yield, but in an inflationary economy people prefer investments in property. Yet once this privatisation increases the list of securities issues, companies in desperate

need of capital will finally understand that bank loans are not the only form of external financing."

Hansa Bank, Estonia's largest, issued 26 per cent of its total outstanding shares nominally worth EK97.5m. With no secondary market in Estonia, the bank plans to cross the Gulf of Finland and list on the Helsinki Stock Exchange.

The exceptions are 13 investment funds. The single closed-end type is the Estonian Investment Fund, with its 20 security issues - nine bond, nine equity, one deposit certificate and one issue of investment fund shares - for a total volume of EK383m as of September. These funds are the country's future institutional investors.

The momentum may hasten the opening of Estonia's stock exchange next year. "The capital market is just about to boom," says Mr Arho Anttila of Sior Bossard. "Lithuania moved fast, but it lacks the strategic foreign investment you see in Latvia and Estonia."

Mr Dmitry Akhmetiev, of Moscow's Aktiv investment fund, counters that the Baltics will always remain too small. Behind Russia, "Ukraine is the only other genuinely attractive financial frontier".

Philip Gawthorn

Exchange rates (rebased)

105
100
95
90
85
1994

News round-up

Shanghai

The Shanghai Stock Exchange has fined four members US\$50,000 for trying to fix treasury bond spot trading, local agencies report.

The exchange ruled that prices traded by the four members would be excluded from the weighted averages.

Prague

The Prague stock exchange will resume trading in stocks and bonds again on Thursday after a break of nearly three weeks. The PX-50 index ended the year at 557.9 on December 16, up 7.8 points but well below its base of 1,000 set when launched in April.

Istanbul

The Istanbul Stock Exchange plans to lift the number of stocks used in the calculation of the composite, industrial and financial indices from 18 to 25 and update them on a quarterly basis in 1995.

The number of stocks in the composite index will go up to 100 from 90, while the industrial index and the financial index will include 78 and 22 stocks, up from 64 and 16, respectively.

Taiwan

Taiwan formally inaugurated a computerised OTC Securities Exchange last Friday and officials predict a rapid expansion for the exchange with 100 expected listings next year.

The country's SEC has approved the conversion of Convertible Bonds into Global Depository Receipts with immediate effect.

The SEC also said that it hoped to secure an arrangement within three months under which CBs could also be converted into stocks on the local stock exchange.

Edited by John Pili. Further coverage of emerging markets appears daily on the World Stock Markets page.

CURRENCIES

Currency traders and investors will return to their desks this week with high hopes, but muted expectations.

Swiss Bank summed up the cautious mood when it predicted 1995 would be the year of the "extremely carefully selected opportunity". This follows the year of the "carefully selected opportunity" in 1994, when traders bemoaned the lack of trends.

This week, markets will kick off with a mixture of the old and the new. The non-farm payroll, out on Friday, will present traders with fami-

liar concerns about US inflation, monetary policy and the dollar.

Some stronger than expected prices data last week has renewed fears that US monetary policy may be too lax. These worries could undermine the dollar, as they did in 1994.

Developments in Mexico, and Latin America generally, could also have a bearing on the dollar. The currency could come under pressure if governments are forced to sell dollars to prop up their own currencies.

Elsewhere, markets will be watching developments in European interest rate markets, and whether currencies like the franc, lira and peseta continue to weaken.

Short term interest rate futures in France, Italy and Spain fell quite sharply last week as pressures on their currencies led markets to discount the prospect of higher rates. All the currencies also finished the year at or near record lows.

In all three countries currency weakness can be linked to political instability. In

Italy, the main question, following the resignation of the Berlusconi government, is how long the hiatus will be until a fresh government is elected. Analysts believe that most bad news is already in the market.

In Spain, by contrast, the peseta is arguably more vulnerable since the scandal surrounding alleged government "dirty tricks" appears still to have some way to run.

The franc gained some support from the 30 basis point rise in commercial bank rates to 8.35 per cent.

DOLLAR

Exchange rates (rebased)

105
100
95
90
85
1994

Source: FT Graphite

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WORLD BOND MARKETS: This Week

NEW YORK

Richard Tomkins

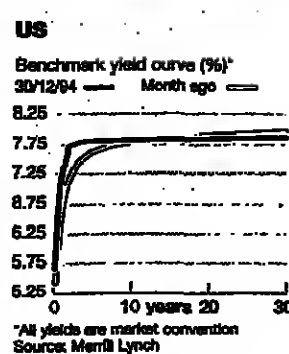
The old year ended with more of a whimper than a bang in the US credit markets on Friday. Amid thin trading on the eve of the holiday weekend, Treasuries drifted lower as a soft dollar and a strong reading from the Purchasing Management Association of Chicago prompted selling. The benchmark 30-year bond slipped $\frac{1}{8}$ to 95 $\frac{1}{2}$ to yield 7.87 per cent.

Today the market remains closed; but tomorrow the Treasuries market will get its first data of 1995 with the publication of the National Association of Purchasing Management's barometer of manufacturing activity in December.

Solomon Brothers predicts a rise in the index to 63, its loftiest level in 11 years.

Further clues to the pace of business activity will come from the figures for factory orders, shipments and inventories on Thursday.

But the most closely-watched



figures of the week will be the employment data for December, due out on Friday.

According to the MMS International, the consensus forecast is that non-farm payrolls rose by 260,000. But if Salomon Brothers is right and the figure grew by 325,000, that would take the cumulative 1994 jobs gain to its highest in 10 years — so adding mightily to the pressure for another turning of the monetary screw early in the new year.

LONDON

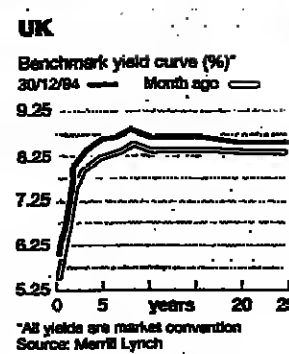
Peter Norman

Politics rather than economics are likely to dominate the market for UK gilts in the early part of this year with the weakness of Mr John Major's government outweighing sound economic fundamentals.

However, traders returning to work tomorrow will have two indicators to consider that could revive fears of inflation. Following news last week of an acceleration in the annual growth rate for notes and coin in circulation, the City's consensus forecasts suggest that provisional figures for M0 money supply in December will show continued strong year-on-year growth of 6.9 per cent.

There are also fears that tomorrow's UK purchasing managers' survey for December will highlight potential inflationary pressures, with the PMI price index around November's high level of 72.

Attention will then shift across the Atlantic. According



to Mr Adam Chester, bond strategist at Yamaichi International in London, the major focus for the UK and other markets will be Friday's US labour market data and the December non-farm pay-roll figure in particular.

Although analysts expect UK gilts to perform better in 1995 than last year, there were few hopes that Friday's modest price rise in shortened pre-holiday trading presaged a longer term recovery.

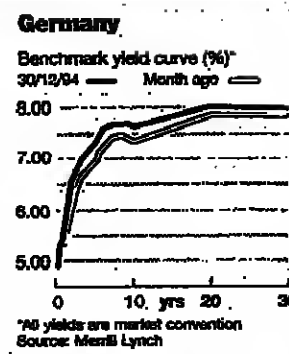
FRANKFURT

Andrew Fisher

German bond traders will have greeted the end of the old year with a sigh of relief after seeing yields move up so sharply. BHF-Bank said the German bond market's return was negative in 1994 — with its performance index down by 0.8 per cent — for the first time since it started calculating its bond average in 1967. This was after a very strong performance in 1993.

But while 1995 is likely to see the market move into less troubled waters, international concern about inflation remains. With interest rates moving up around the world, Germany will find it hard to buck the trend. So far, the inflation picture looks manageable. But import and producer prices have been rising more steeply, so the Bundesbank will keep a watchful eye on the extent to which economic growth leads to renewed inflationary pressures.

It is satisfied, for the moment, with the slowdown in



money supply growth, though the shift of assets into money market funds has helped. But the central bank is determined to hold federal, state and local authorities to their tighter budget line and to convince wage negotiators of the need for moderation.

So, as the Bundesbank is fond of saying, it is too early to sound the all-clear — on inflation, on money supply, and thus on the need to raise interest rates.

TOKYO

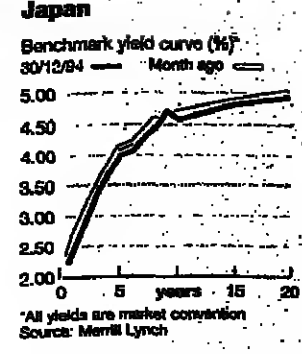
Emiko Terazono

Further evidence last week of a subdued economic recovery and continuing deflation has cheered Tokyo's bond market participants, and comments by Mr Yasuo Mutsushita, the new Bank of Japan governor, on the fragile nature of the recovery have eased fears of a tightening in short-term interest rates.

While trading — which begins on Wednesday — is expected to be slow this week, reduced expectations of a strong economic rebound may provide support for investor confidence.

"The volatility of the JGB yield has returned to normal levels," says Salomon Brothers in Tokyo. In addition, bond yields, having not risen for several months, are likely to encourage institutional investors, which are still maintaining a risk-averse stance towards investment due to the fall in unrealised gains on securities holdings.

For the first few months of this year, investors are likely



to focus on the stock market, which could once again be depressed by profit-taking before the March fiscal year-end. The bond market, which suffered losses during last March and June, is also vulnerable to similar moves.

However, many investors see such yield movements as unjustified by economic fundamentals, and many analysts expect low inflation and the weak recovery to prevail over such "anomalies".

The resilience and resourcefulness of borrowers in the international bond markets last year bodes well for 1995, says Graham Bowley

Continued flexibility by issuers the key to success this year



OUTLOOK 95

A record-breaking year in the euro-bond market, 1994 was always going to be a hard act to follow. But nobody could have foreseen just how difficult 1994 was going to be.

Investors, borrowers and underwriters all suffered from the extremely volatile market conditions, as rising interest rates and inflation and strong economic growth sent bond prices around the world tumbling and yields climbing inexorably upwards.

Despite the fierce market conditions, a total of \$423bn of new international bonds was issued in 1994, a drop of only 4.3 per cent from the record volumes of 1993, according to Euromoney Bondware. This is testament to the resilience and resourcefulness displayed by borrowers last year, many of whom turned to new and innovative bond structures and the more unusual currency sectors to target the pockets of investor demand that still remained.

This bodes well for 1995, for although US interest rates are nearing their peak, elsewhere in the world the general theme will still be that of growing economies and rising interest rates. Borrowers will have to be as flexible in their borrowing strategies in 1995 as they were last year.

The volume of new international bonds denominated in US dollars rose by 6.8 per cent, to \$166bn, a reflection of the tendency in times of uncertainty for investors to flee from "peripheral" currencies — those most prone to inflation and devaluation or where the country has a high stock of national debt — to "core" currencies, such as the dollar.

But perhaps the most startling trend in 1994 was the rapid growth of bond issues denominated in Japanese yen, a result of the strong appetite among Japanese investors for yen-denominated assets issued abroad. Yen issues rose by \$7.7 per cent in 1994 to \$71bn, from \$45bn in 1993.

Japanese investors, burnt by foreign exchange losses in the past, were reluctant to expose

themselves to further currency losses in 1994. In addition, with the Japanese economy still only at the beginning of its recovery and with little upwards pressure on interest rates, the Japanese government bond market was relatively stable throughout 1994 after the initial sell-off at the beginning of the year.

It was this willingness among Japanese investors to continue lending on international markets which meant that many borrowers suffered less from the bear market than investors and underwriters.

"This phenomenal trend was the pressure-release valve," said Mr Charlie Berman, a director of capital markets at Salomon Brothers. "Although 1994 was a difficult year for many borrowers, it was not a catastrophic year — largely because of the demand for yen assets from Japan."

In fact, "despite all their problems, most borrowers have ended a year with their borrowing programmes completed at a decent cost," he said. "Even though interest rates are higher, they have borrowed

money and their borrowing costs have risen by only a few basis points."

On the other hand, investors, particularly institutional investors, and the investment banks which underwrote the bond offerings had a harder year, hit by falling prices.

"This has been a brutal year," said one bond dealer at a US bank in London. "Our role as market-maker and as a provider of liquidity meant that we lost a lot of money as we were forced to buy securities in a falling market."

Japanese investors may hold the key to the eurobond markets in 1995. Mr Mathew Cormack, at Nikko in London, thinks the crucial question likely to dominate the eurobond market this year is whether Japanese investors will turn away from yen assets and begin to buy paper denominated in other currencies.

"That will depend to a large extent on the yen-dollar exchange rate, according to Mr Steve Apted, also of Nikko. "If the dollar begins to strengthen then Japanese investors may start to buy dollar-denomi-

nated bonds. We will then begin to see a lot of dollar-denominated paper targeted towards Japan," he said. "Until then, however, we will continue to see heavy volumes of eurodenominated issuance."

Another notable theme in 1994 was the flood of new issuance in the floating-rate note, or FRN, sector. The coupon paid on an FRN moves in line with short-term interest rates, providing protection for the investor in a rising interest rate environment. As a result, while the volume of fixed-rate new issuance fell by 15 per cent last year to \$236bn, the volume of FRNs rose to \$105bn, an increase of 49 per cent.

However, not all FRNs issued last year performed well. Many of the large dollar offerings launched by sovereign borrowers fell in price over the year.

"FRNs have been an interesting trend but not all of them have been an unqualified success," said Mr Apted.

In a year in which prices were so volatile, institutional investors, which typically favour higher quality assets and care more for price, were for the most part on the sidelines, badly burnt by falling prices.

Instead, it was retail investors, who tend to hold bonds to maturity and so care more for yield than price, that drove demand. As a result, many of the bond offerings targeted at institutional investors fared badly.

Nevertheless, the trend towards greater FRN issuance looks set to continue. "With interest rates still rising, the FRN sector is likely to remain popular with investors," said Mr Paul Hearn, managing director and head of European bond syndicate at J.P. Morgan.

TOP INTERNATIONAL BOND LEAD MANAGERS									
		1994		1993		1992		1991	
Manager	\$bn	Rank	%	Manager	\$bn	Rank	%	Manager	\$bn
Merrill Lynch	35.44	1	8.38	169	18.80	5	4.25	100	
CSFB/Credit Suisse	27.85	2	6.58	146	25.00	3	5.65	147	
Goldman Sachs	23.28	3	5.50	99	27.17	1	6.14	98	
Swiss Bank Corp	22.16	4	5.24	138	15.89	10	3.59	115	
Nomura	21.75	5	5.14	197	19.07	4	4.31	106	
UBS	17.09	6	4.04	51	16.44	7	4.17	134	
Lehman Brothers	16.85	7	3.98	81	17.45	8	3.95	80	
Morgan Stanley	16.59	8	3.82	119	16.40	9	4.17	91	
J.P. Morgan	16.16	9	3.82	91	12.56	12	2.84	60	
Deutsche	15.22	10	3.60	100	11.20	14	2.53	89	
Industry totals	423.05		100.0	3032	442.24		100.0	2600	

Full credit to book number Source: Euromoney Bondware

In particular, "the D-Mark FRN market will be interesting, with the new money market funds in Germany likely to be large buyers."

This generally dismal performance by highly-priced, low-yielding FRN issues marks a wider trend throughout the eurobond market — to a large extent, 1994 was the year of the corporate borrower rather than the sovereign borrower, just as it was the year of the retail investor, rather than the institutional investor.

While sovereign issuers were active throughout 1994 — many, such as Sweden, with large borrowing requirements to fund — their bond offerings were less successful than the deals done by corporate borrowers. The latter, with lower credit ratings, offered investors more attractive yields compared with underlying government bond markets.

Thus a flood of high-quality and high-profile corporate names, particularly from the US, accessed the eurobond market to take advantage of strong retail investor demand for high yielding assets.

Companies like AT&T, Walt Disney, Heinz, Johnson & Johnson and PepsiCo secured funding at a cost significantly below that on offer in the US

domestic bond market.

In particular, these borrowers targeted the short-end of the dollar sector, where retail investor interest was at its most intense after a sharp rise in short-term interest rates.

Mr Eden Riche, a syndicate manager at Morgan Stanley in London, said: "What has been remarkable this year has been the resilience of retail investors. In a year in which institutions have been wary of getting involved, many of the deals, particularly in the last half of the year, were sold to retail investors and this is reflected in the improved fortunes of the banks with large Swiss retail networks."

Many think this trend will continue into 1995. "There is still a strong bid among retail investors for short-dated dollar paper," said Mr Hearn. "That will continue, and institutional investors who are already returning to the market will participate more strongly."

A constant stream of redemptions will provide a significant boost to this process — Mr Hearn estimates that \$20bn is due for redemption in the dollar sector in the first three months of 1995.

This year could also see a continued pick-up in corporate issuance as faster economic

growth fuels the need for capital in the corporate sector. At the same time, sovereign borrowers may come to rely less on the international bond markets as their public finances improve.

However, Mr Riche thinks sovereign borrowers — such as Sweden, Spain, Finland, and Austria — will continue to play an important role in the euro-bond market, while many corporate borrowers may turn to the syndicated loans market, where intense competition among banks hungry for new assets has driven pricing down to extremely fine levels.

Several borrowers have already been tempted away from the eurobond market by the relatively cheap and flexible financing on offer.

"This may well put pressure on spreads in the eurobond market," said Mr Riche.

Mr Hearn, of J.P. Morgan, thinks uncertainty surrounding derivative instruments, brought to a head by the losses at California's Orange County, may mean those borrowers who have relied heavily on structured notes will have to look elsewhere for funds. "That potentially means more plain vanilla, main-line bond issuance," he said.

However, perhaps the most important development last year was the arrival in the eurobond markets of the large US agencies, such as the Federal Home Loans Mortgage Corporation and Federal National Mortgage Association.

These agencies, which have vast borrowing programmes which would dwarf even the large European sovereign borrowers, are beginning to turn to the international markets for their funding needs, with significant implications for the eurobond market.

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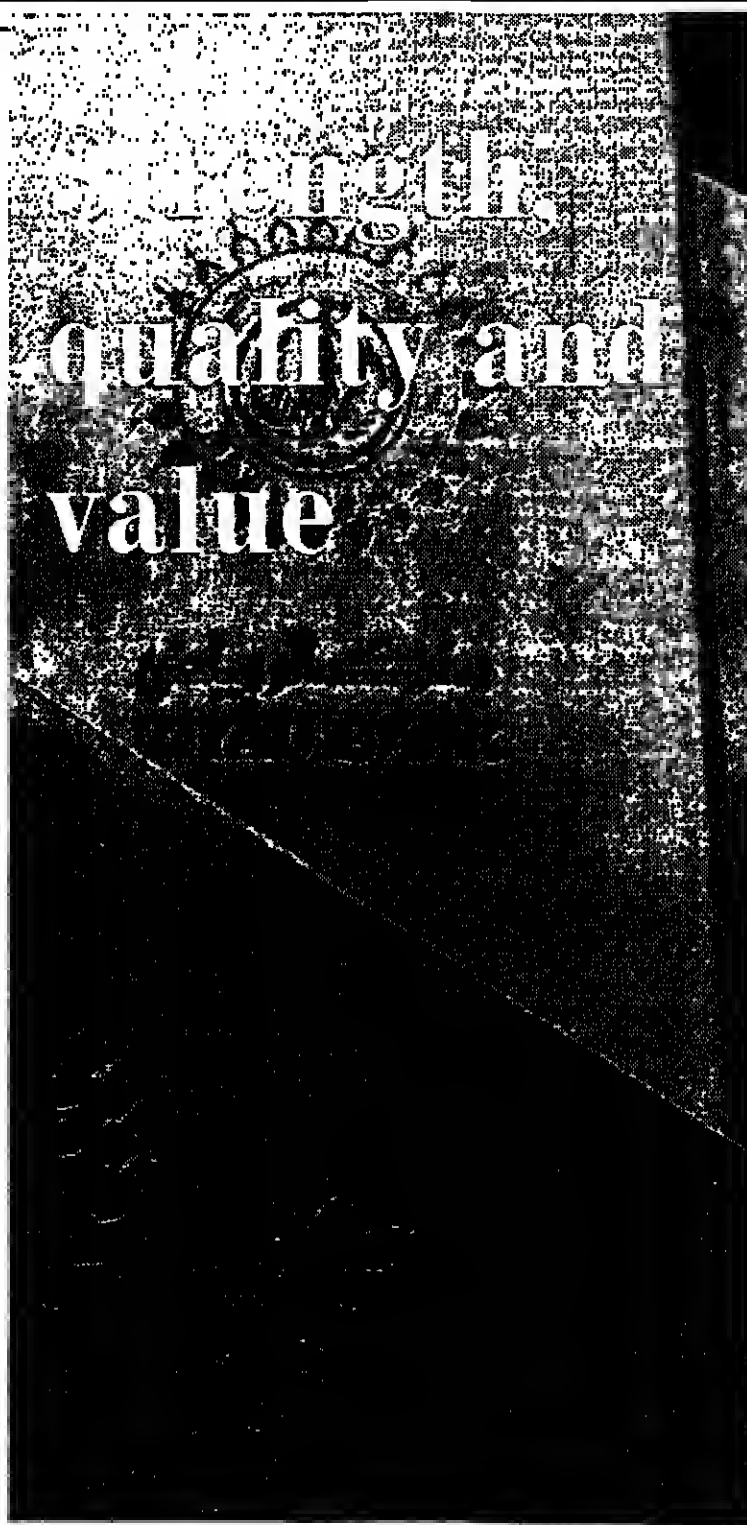
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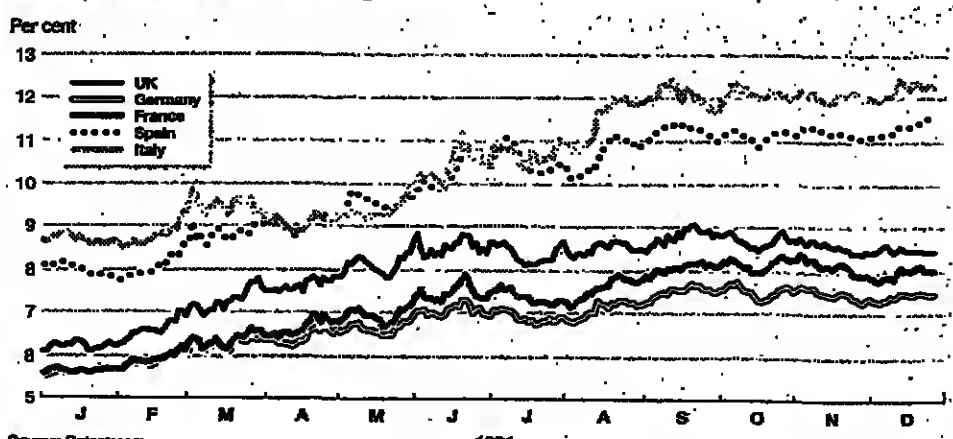
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10-year benchmark bond yields



INTEREST RATES AT A GLANCE

	USA	Japan	Germany	France	Italy	UK
Discount	4.75	1.75	4.50	6.40	7.50	6.25
Overnight	5.00	2.22	5.00	5.28	6.10	4.00
Three month	5.59	2.34	5.06	6.09	6.81	6.58
One year	7.20	2.50	5.75	6.95	10.38	7.87
Five year	7.83	3.94	7.30	8.08	12.43	8.65
Ten year	7.84	4.59	7.80	8.28	12.40	8.71

(1) France-Ribon rate. (2) UK-Bank rate. Source: Reuters.

US TREASURY BOND FUTURES (CBT) \$100,000 32nds of 100%

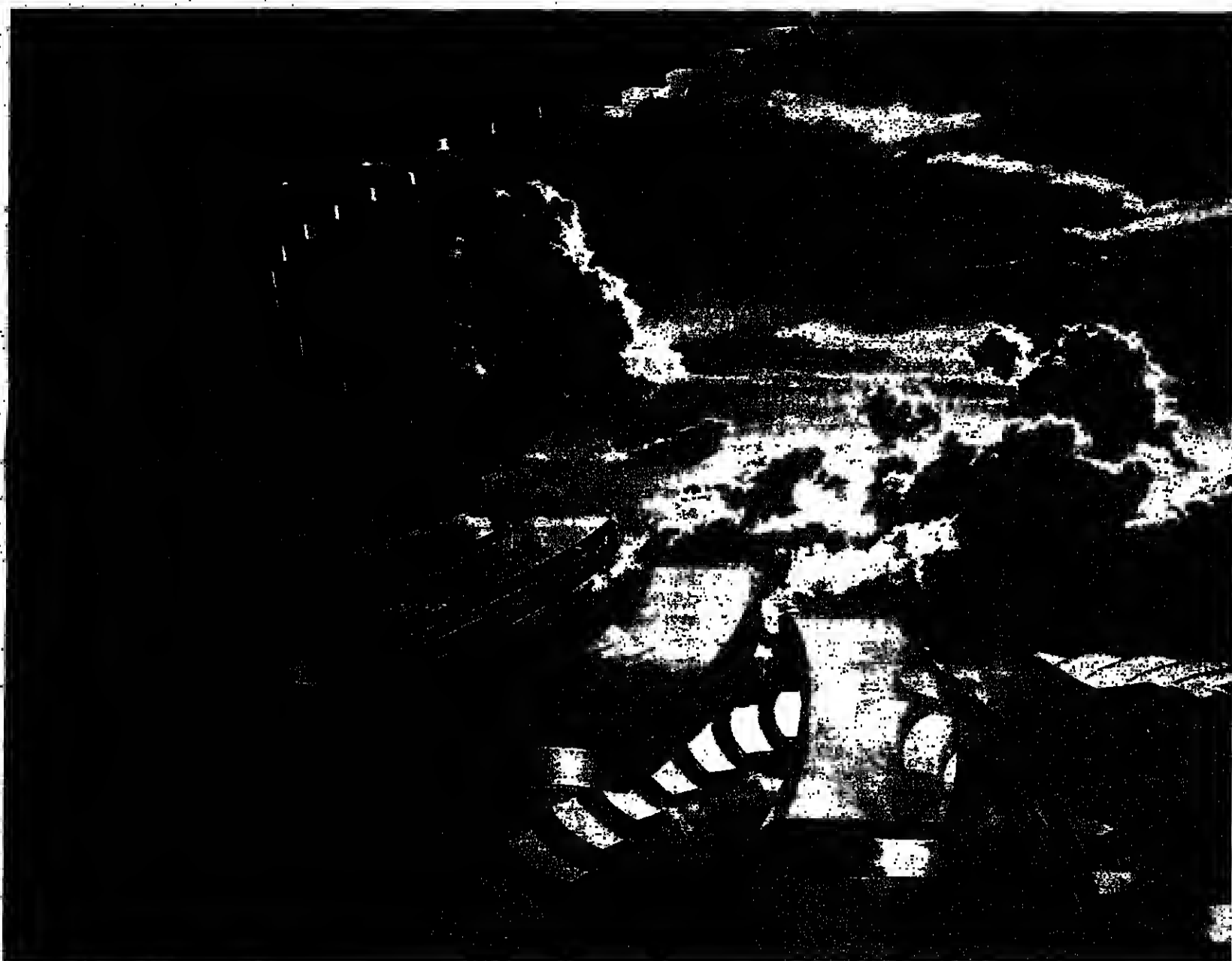
	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Mar	99-17	99-05	-0-10	99-22	99-31	127,870	343,300
Jun	99-08	99-26	-0-10	99-15	99-20	1,752	13,981
Sep	99-17	99-15	-0-11	99-18	99-14	385	1,888

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount \$	Maturity	Coupon %	Price	Yield %	Launch spread bp	Book runner
US DOLLARS							
SABIC Corp	710	Jan 1997	6 1/4	100.00	-	-	J.P. Morgan Securities
Nippon Credit Co Ltd	400	Feb 2000	6 1/8	100.00	-	-	Deutsche Bank AG
Unifrance Leasing	50	Dec 1997	6 1/4	99.75	-	-	CS First Boston
Bank of Shanghai	100	Jan 2000	6 1/8	100.00	-	-	St. Charles Bank
Sandwich East Coast	100	Jan 1997	6 1/8	99.75	-	-	St. Charles Bank
LYC of Japan	65	Jan 2000	6 1/4	101.25	-	-	LYC International
EURO DOLLARS							
Korea Development Bank	200	Aug 1997	2 1/8	91.50	3.418	-	Yamaichi Int'l (Europe)
Indesit	100	Mar 1999	4.15	100.00	-	-	Yamaichi Int'l (Europe)
FRANCE FRANCS							
Depts (France)	250	Dec 1998	7.375	100.00	-	-	Commerzbank
GERMANY MARKS							
Depts (France), Tansco AG	100	Jan 1997	6 1/8	99.93	-	-	OCF
Depts (France), Tansco AG	100	Jan 1997	6 1/8	99.93	-	-	OCF
Depts (France), Tansco AG	100	Jan 1997	6 1/8	99.93	-	-	OCF
SWISS FRANCS							
Crédit Local de France	125	Jan 1999	5.50	102.50	4.784	-	Swiss Bank Corp
Crédit Local de France	200	Jan 2002	5.25	102.65	4.735	-	Swiss Bank Corp
LUXEMBOURG FRANCS							
Redbank Nederland	300	Dec 2000	7.75	101.25	7.38	-	BSL



A NEW NAME LEADING TELECOMMUNICATIONS IN ITALY



TELECOM ITALIA

was set up on 18 August 1994 through the merging of five companies (SIP, Italcable, Iritel, Telespazio and Sirm) that had until then managed Italian telecommunications separately, and has thus become a global operator in a completely new framework.

TELECOM ITALIA

is now the sixth largest telecommunications operator in the world in terms of turnover and one of Europe's prime investors in the sector.

It is a joint-stock company with almost 70,000 investors and 18% of its share capital is held by foreign shareholders.

TELECOM ITALIA

has a worldwide presence with 18 representative offices with a large number of other corporate entities, it also has a wide-spread commercial network geared to provide, even abroad a speedy, integrated and innovative answer to the communications requirements of people and companies.

"A sharp decline in financial charges achieved thanks to ongoing economic and financial consolidation is the clear result of a policy based on rational and integrated organization, further strict cost reduction measures and carefully selected large-scale economies in order to become competitive in a free market".

(Francesco Chirichigno)

Managing Director

THE FIRST SIX MONTHS OF TELECOM ITALIA

	30.06.94	31.12.93*
REVENUES (BILL)	14.276	23.404
ADDED VALUE (BILL)	11.345	18.164
ADDED VALUE / REVENUES (%)	79,5	77,6
GROSS OPERATING MARGIN (BILL)	7.994	12.327
GOM / REVENUES	56	52,7
OPERATING PROFIT (BILL)	3.136	3.796
NET FINANCIAL CHARGES / REVENUES (%)	5,3	9,8
PROFIT BEFORE TAXATION (BILL)	2.175	1.741
INVESTMENTS (BILL)	3.680	7.963

*1993 FIGURES REFER TO MERGED COMPANY SIP

TELECOM ITALIA - Direzione Generale - via Flaminia, 189 - 00196 Roma



PROGETTO GRAFICO: PUBBLICITÀ/ARCO/PIRELLA GÖTTSCHE LOWE

WORLD STOCK MARKETS

EUROPE (Dec 29 / Fri)									
Stock	High	Low	Open	Close	Change	Volume	High	Low	Open
Austria (Dec 29 / Fri)									
Vienna	1,200	1,180	1,190	1,185	-5	1,200	1,200	1,180	1,190
Germany (Dec 29 / Fri)									
DAX	2,300	2,280	2,290	2,285	-5	2,300	2,300	2,280	2,290
France (Dec 29 / Fri)									
CAC 40	3,500	3,480	3,490	3,485	-5	3,500	3,500	3,480	3,490
Italy (Dec 29 / Fri)									
FTSE 100	2,800	2,780	2,790	2,785	-5	2,800	2,800	2,780	2,790
Spain (Dec 29 / Fri)									
IBEX 35	1,500	1,480	1,490	1,485	-5	1,500	1,500	1,480	1,490
UK (Dec 29 / Fri)									
FTSE 100	2,800	2,780	2,790	2,785	-5	2,800	2,800	2,780	2,790
Japan (Dec 29 / Fri)									
Nikkei 225	12,000	11,800	11,900	11,850	-50	12,000	12,000	11,800	11,900
South Korea (Dec 29 / Fri)									
KOSPI	1,500	1,480	1,490	1,485	-5	1,500	1,500	1,480	1,490
Taiwan (Dec 29 / Fri)									
TSEI	1,500	1,480	1,490	1,485	-5	1,500	1,500	1,480	1,490
Hong Kong (Dec 29 / Fri)									
HK 100	1,500	1,480	1,490	1,485	-5	1,500	1,500	1,480	1,490
India (Dec 29 / Fri)									
Sensex	1,500	1,480	1,490	1,485	-5	1,500	1,500	1,480	1,490
China (Dec 29 / Fri)									
Shanghai	1,500	1,480	1,490	1,485	-5	1,500	1,500	1,480	1,490
South Africa (Dec 29 / Fri)									
FTSE JSE 100	1,500	1,480	1,490	1,485	-5	1,500	1,500	1,480	1,490
Latin America (Dec 29 / Fri)									
Brazil	1,500	1,480	1,490	1,485	-5	1,500	1,500	1,480	1,490
Argentina	1,500	1,480	1,490	1,485	-5	1,500	1,500	1,480	1,490
Colombia	1,500	1,480	1,490	1,485	-5	1,500	1,500	1,480	1,490
Venezuela	1,500	1,480	1,490	1,485	-5	1,500	1,500	1,480	1,490
Asia (Dec 29 / Fri)									
Japan	12,000	11,800	11,900	11,850	-50	12,000	12,000	11,800	11,900
South Korea	1,500	1,480	1,490	1,485	-5	1,500	1,500	1,480	1,490
Taiwan	1,500	1,480	1,490	1,485	-5	1,500	1,500	1,480	1,490
Hong Kong	1,500	1,480	1,490	1,485	-5	1,500	1,500	1,480	1,490
India	1,500	1,480	1,490	1,485	-5	1,500	1,500	1,480	1,490
China	1,500	1,480	1,490	1,485	-5	1,500	1,500	1,480	1,490
South Africa	1,500	1,480	1,490	1,485	-5	1,500	1,500	1,480	1,490
Latin America	1,500	1,480	1,490	1,485	-5	1,500	1,500	1,480	1,490
Europe	2,300	2,280	2,290	2,285	-5	2,300	2,300	2,280	2,290
Asia	12,000	11,800	11,900	11,850	-50	12,000	12,000	11,800	11,900
South America	1,500	1,480	1,490	1,485	-5	1,500	1,500	1,480	1,490
Africa	1,500	1,480	1,490	1,485	-5	1,500	1,500	1,480	1,490
Oceania	1,500	1,480	1,490	1,485	-5	1,500	1,500	1,480	1,490
Global	1,500	1,480	1,490	1,485	-5	1,500	1,500	1,480	1,490

INDICES									
Index	High	Low	Open	Close	Change	Volume	High	Low	Open
Australia (Dec 29 / Fri)									
ASX 100	1,500	1,480	1,490	1,485	-5	1,500	1,500	1,480	1,490
Canada (Dec 29 / Fri)									
S&P 500	2,800	2,780	2,790	2,785	-5	2,800	2,800	2,780	2,790
France (Dec 29 / Fri)									
CAC 40	3,500	3,480	3,490	3,485	-5	3,500	3,500	3,480	3,490
Germany (Dec 29 / Fri)									
DAX	2,300	2,280	2,290	2,285	-5	2,300	2,300	2,280	2,290
Italy (Dec 29 / Fri)									
FTSE 100	2,800	2,780	2,790	2,785	-5	2,800	2,800	2,780	2,790
Japan (Dec 29 / Fri)									
Nikkei 225	12,000	11,800	11,900	11,850	-50	12,000	12,000	11,800	11,900
South Korea (Dec 29 / Fri)									
KOSPI	1,500	1,480	1,490	1,485	-5	1,500	1,500	1,480	1,490
Taiwan (Dec 29 / Fri)									
TSEI	1,500	1,480	1,490	1,485	-5	1,500	1,500	1,480	1,490
Hong Kong (Dec 29 / Fri)									
HK 100	1,500	1,480	1,490	1,485	-5	1,500	1,500	1,480	1,490
India (Dec 29 / Fri)									
Sensex	1,500	1,480	1,490	1,485	-5	1,500	1,500	1,480	1,490
China (Dec 29 / Fri)									
Shanghai	1,500	1,480	1,490	1,485	-5	1,500	1,500	1,480	1,490
South Africa (Dec 29 / Fri)									
FTSE JSE 100	1,500	1,480	1,490	1,485	-5	1,500	1,500	1,480	1,490
Latin America (Dec 29 / Fri)									
Brazil	1,500	1,480	1,490	1,485	-5	1,500	1,500	1,480	1,490
Argentina	1,500	1,480	1,490	1,485	-5	1,500	1,500	1,480	1,490
Colombia	1,500	1,480	1,490	1,485	-5	1,500	1,500	1,480	1,490
Venezuela	1,500	1,480	1,490	1,485	-5	1,500	1,500	1,480	1,490
Asia (Dec 29 / Fri)									
Japan	12,000	11,800	11,900	11,850	-50	12,000	12,000	11,800	11,900
South Korea	1,500	1,480	1,490	1,485	-5	1,500	1,500	1,480	1,490
Taiwan	1,500	1,480	1,490	1,485	-5	1,500	1,500	1,480	1,490
Hong Kong	1,500	1,480	1,490	1,485	-5	1,500	1,500	1,480	1,490
India	1,500	1,480	1,490	1,485	-5	1,500	1,500	1,480	1,490
China	1,500	1,480	1,490	1,485	-5	1,500	1,500	1,480	1,490
South Africa	1,500	1,480	1,490	1,485	-5	1,500	1,500	1,480	1,490
Latin America	1,500	1,480	1,490	1,485	-5	1,500	1,500	1,480	1,490
Europe	2,300	2,280	2,290	2,285	-5	2,300	2,300	2,280	2,290
Asia	12,000	11,800	11,900	11,850	-50	12,000	12,000	11,800	11,900
South America	1,500	1,480	1,490	1,485	-5	1,500	1,500	1,480	1,490
Africa	1,500	1,480	1,490	1,485	-5	1,500	1,500	1,480	1,490
Oceania	1,500	1,480	1,490	1,485	-5	1,500	1,500	1,480	1,490
Global	1,500	1,480	1,490	1,485	-5	1,500	1,500	1,480	1,490

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CURRENCIES AND MONEY

POUND SPOT FORWARD AGAINST THE POUND

Dec 30	Closing mid-point	Change on day	Settlement	Day's Mid	One month	Three months	One year	JP Morgan
					Rate	Rate	Rate	Index
Australia (A\$)	17.0648	+0.0074	554.742	17.1067	16.9915	17.051	1.0	115.8
Belgium (Bfr)	49.7081	+0.0007	508.452	49.8000	49.8390	49.781	0.7	117.6
Denmark (DKr)	6.5206	+0.0002	154.282	6.5200	6.5190	6.5175	0.4	118.8
France (Ffr)	16.4180	+0.0017	448.251	16.4200	16.4180	16.4175	0.3	118.8
Germany (DM)	1.6349	+0.0003	447.540	1.6350	1.6341	1.6350	0.2	118.8
Greece (Dr)	242.50	+0.0007	224.265	242.50	242.50	242.50	0.2	118.8
Italy (Lit)	376.419	+0.0002	220.617	377.182	374.973	376.419	0.2	118.8
Japan (Yen)	161.031	+0.0002	128.139	161.031	161.031	161.031	0.2	118.8
Netherlands (Gld)	203.02	+0.0007	603.000	203.02	203.02	203.02	0.2	118.8
Norway (Nkr)	46.7961	+0.0007	508.452	46.8000	46.8390	46.781	0.7	117.6
Portugal (Esc)	203.02	+0.0007	603.000	203.02	203.02	203.02	0.2	118.8
Spain (Ptas)	166.0323	+0.0007	128.139	166.0323	166.0323	166.0323	0.2	118.8
Sweden (Skr)	203.02	+0.0007	603.000	203.02	203.02	203.02	0.2	118.8
Switzerland (Sfr)	1.6349	+0.0003	447.540	1.6350	1.6341	1.6350	0.2	118.8
UK (Sterling)	1.0000	0.0000	0.000	1.0000	1.0000	1.0000	0.0	118.8
USA (Dollar)	1.6349	+0.0003	447.540	1.6350	1.6341	1.6350	0.2	118.8

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Dec 30	Closing mid-point	Change on day	Settlement	Day's Mid	One month	Three months	One year	JP Morgan
					Rate	Rate	Rate	Index
Australia (A\$)	10.8075	+0.0113	100.000	10.8188	10.8035	10.808	1.1	104.9
Belgium (Bfr)	21.8000	+0.0010	100.000	21.8000	21.8000	21.8000	1.1	104.9
Denmark (DKr)	6.5206	+0.0002	154.282	6.5200	6.5190	6.5175	0.4	103.4
France (Ffr)	16.4180	+0.0017	448.251	16.4200	16.4180	16.4175	0.3	103.4
Germany (DM)	1.6349	+0.0003	447.540	1.6350	1.6341	1.6350	0.2	103.4
Greece (Dr)	242.50	+0.0007	224.265	242.50	242.50	242.50	0.2	103.4
Italy (Lit)	376.419	+0.0002	220.617	377.182	374.973	376.419	0.2	103.4
Japan (Yen)	161.031	+0.0002	128.139	161.031	161.031	161.031	0.2	103.4
Netherlands (Gld)	203.02	+0.0007	603.000	203.02	203.02	203.02	0.2	103.4
Norway (Nkr)	46.7961	+0.0007	508.452	46.8000	46.8390	46.781	0.7	103.4
Portugal (Esc)	203.02	+0.0007	603.000	203.02	203.02	203.02	0.2	103.4
Spain (Ptas)	166.0323	+0.0007	128.139	166.0323	166.0323	166.0323	0.2	103.4
Sweden (Skr)	203.02	+0.0007	603.000	203.02	203.02	203.02	0.2	103.4
Switzerland (Sfr)	1.6349	+0.0003	447.540	1.6350	1.6341	1.6350	0.2	103.4
UK (Sterling)	1.0000	0.0000	0.000	1.0000	1.0000	1.0000	0.0	103.4
USA (Dollar)	1.0000	0.0000	0.000	1.0000	1.0000	1.0000	0.0	103.4

WORLD INTEREST RATES

December 30	Overnight	One month	Three months	Six months	One year	Long term	Dis. rate	Repo rate
Belgium	5%	5%	5%	5%	5%	7.40	4.50	-
France	5%	5%	5%	5%	5%	7.40	4.50	-
Germany	5%	5%	5%	5%	5%	7.40	4.50	-
Italy	5%	5%	5%	5%	5%	7.40	4.50	-
Netherlands	5%	5%	5%	5%	5%	7.40	4.50	-
Sweden	5%	5%	5%	5%	5%	7.40	4.50	-
Switzerland	5%	5%	5%	5%	5%	7.40	4.50	-
UK	5%	5%	5%	5%	5%	7.40	4.50	-
USA	5%	5%	5%	5%	5%	7.40	4.50	-

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Dec 30	BFY	DM	FF	DM	FF	DM	FF	DM	FF
Belgium (Bfr)	100	16.12	4.870	2.095	5.997	5.453	21.25	600.3	413.5
Denmark (DKr)	100	6.788	2.547	1.004	2.656	2.352	11.01	281.3	122.2
France (Ffr)	100	6.554	2.400	1.000	2.634	2.352	11.01	281.3	122.2
Germany (DM)	100	6.554	2.400	1.000	2.634	2.352	11.01	281.3	122.2
Italy (Lit)	100	193.8	69.36	23.36	8.366	7.541	193.8	69.36	23.36
Netherlands (Gld)	100	1.932	0.75	0.229	0.068	0.060	1.00	0.107	0.017
Norway (Nkr)	100	4.760	1.737	0.633	1.737	0.633	1.00	0.107	0.017
Portugal (Esc)	100	203.02	72.96	23.36	8.366	7.541	193.8	69.36	23.36
Spain (Ptas)	100	166.03	60.48	23.36	8.366	7.541	193.8	69.36	23.36
Sweden (Skr)	100	4.760	1.737	0.633	1.737	0.633	1.00	0.107	0.017
Switzerland (Sfr)	100	1.635	0.59	0.229	0.068	0.060	1.00	0.107	0.017
UK (Sterling)	100	1.000	0.75	0.229	0.068	0.060	1.00	0.107	0.017
USA (Dollar)	100	1.635	0.59	0.229	0.068	0.060	1.00	0.107	0.017

FT GUIDE TO WORLD CURRENCIES

Dec 30	BFY	DM	FF	DM	FF	DM	FF	DM	FF
Belgium (Bfr)	100	16.12	4.870	2.095	5.997	5.453	21.25	600.3	413.5
Denmark (DKr)	100	6.788	2.547	1.004	2.656	2.352	11.01	281.3	122.2
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USA (Dollar)	100	1.635	0.59	0.229	0.068	0.060	1.00	0.107	0.017

FT GOLD MINES INDEX

Dec 30	% chg	Dec 29	% chg	Dec 28	% chg	Dec 27	% chg	Dec 26	% chg
Gold Mines Index (S&P)	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Africa (S&P)	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Asia (S&P)	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Europe (S&P)	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Latin America (S&P)	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Middle East (S&P)	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Oceania (S&P)	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
USA (S&P)	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00

LONDON RECENT ISSUES: EQUITIES

Dec 30	High	Low	Close	Change	Volume
100 F.P.	4.20	4.10	4.15	+0.05	100
100 F.P.	4.20	4.10	4.15	+0.05	100
100 F.P.	4.20	4.10	4.15	+0.05	100
100 F.P.	4.20	4.10	4.15	+0.05	100
100 F.P.	4.20	4.10	4.15	+0.05	100
100 F.P.	4.20	4.10	4.15	+0.05	100
100 F.P.	4.20	4.10	4.15	+0.05	100
100 F.P.	4.20	4.10	4.15	+0.05	100
100 F.P.	4.20	4.10	4.15	+0.05	100
100 F.P.	4.20	4.10	4.15	+0.05	100

UK INTEREST RATES

Dec 30	Overnight	One month	Three months	Six months	One year
Bank of England	5%	5%	5%	5%	5%
London Interbank	5%	5%	5%	5%	5%
London Treasury	5%	5%	5%	5%	5%
London Gilt	5%	5%	5%	5%	5%
London Swap	5%	5%	5%	5%	5%
London Futures	5%	5%	5%	5%	5%
London Options	5%	5%	5%	5%	5%
London Derivatives	5%	5%	5%	5%	5%
London Commodity	5%	5%	5%	5%	5%
London Energy	5%	5%	5%	5%	5%

LONDON MONEY RATES

Dec 30	Overnight	One month	Three months	Six months	One year
Bank of England	5%	5%	5%	5%	5%
London Interbank	5%	5%	5%	5%	5%
London Treasury	5%	5%	5%	5%	5%
London Gilt	5%	5%	5%	5%	5%
London Swap	5%	5%	5%	5%	5%
London Futures	5%	5%	5%	5%	5%
London Options	5%	5%	5%	5%	5%
London Derivatives	5%	5%	5%	5%	5%
London Commodity	5%	5%	5%	5%	5%
London Energy	5%	5%	5%	5%	5%

LONDON TREASURY BILL TENDER

Dec 30	Overnight	One month	Three months	Six months	One year
Bank of England	5%	5%	5%	5%	5%
London Interbank	5%	5%	5%	5%	5%
London Treasury	5%	5%	5%	5%	5%
London Gilt	5%	5%	5%	5%	5%
London Swap	5%	5%	5%	5%	5%
London Futures	5%	5%	5%	5%	5%
London Options	5%	5%	5%	5%	5%
London Derivatives	5%	5%	5%	5%	5%
London Commodity	5%	5%	5%	5%	5%
London Energy	5%	5%	5%	5%	5%

BANK RETURN

Dec 30	Overnight	One month	Three months	Six months	One year
Bank of England	5%	5%	5%	5%	5%
London Interbank	5%	5%	5%	5%	5%
London Treasury	5%	5%	5%	5%	5%
London Gilt	5%	5%	5%	5%	5%
London Swap	5%	5%	5%	5%	5%
London Futures	5%	5%	5%	5%	5%
London Options	5%	5%	5%	5%	5%
London Derivatives	5%	5%	5%	5%	5%
London Commodity	5%	5%	5%	5%	5%
London Energy	5%	5%	5%	5%	5%

BANK OF ENGLAND TREASURY BILL TENDER

Dec 30	Overnight	One month	Three months	Six months	One year
Bank of England	5%	5%	5%	5%	5%
London Interbank	5%	5%	5%	5%	5%
London Treasury	5%	5%	5%	5%	5%
London Gilt	5%	5%	5%	5%	5%
London Swap	5%	5%	5%	5%	5%
London Futures	5%	5%	5%	5%	5%
London Options	5%	5%	5%	5%	5%
London Derivatives	5%	5%	5%	5%	5%
London Commodity	5%	5%	5%	5%	5%
London Energy	5%	5%	5%	5%	5%

BASE LENDING RATES

FT GUIDE TO WORLD CURRENCY				
The FT Guide to World Currencies table can be found on the Comparison News page in today's edition.				
One month	Three months	Six months	One year	
6 - 5%	6 1/2 - 6%	7 1/4 - 7 1/2	8 - 7 1/2	
5 1/2 - 5%	6 3/4 - 6 1/2	7 - 6 1/2	7 1/2 -	
5 1/2 - 5%	6 3/4 - 6 1/2	6 1/2 - 6 1/2	7 - 6 1/2	
5 1/2 - 5%	6 3/4 - 6 1/2	7 - 6 1/2	7 1/2 -	

HEALTH CARE - Cont.

هكذا عن الأصل

TRANSPORT C-14

4 pm close December 30

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Financial Times

Continued on next page

4 pm close December 30

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4 pm close December 3

[illegible]

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Financial Times. Europe's Business Newspaper.

1. *Journal of the American Medical Association*, 1997; 277: 1039-1043.

[illegible]

FT GUIDE TO THE WEEK

2

MONDAY

Europe files in to Orly

France opens Orly airport, south of Paris, to European airlines for flights within the European Union. Lufthansa of Germany, KLM of the Netherlands and Lunda Air of Austria all start services to Orly, which offers better domestic connections and is closer to the centre than Charles de Gaulle, the other main Paris airport. On January 15 these airlines will be joined by Sabena of Belgium.

Landing rights for the new arrivals follow a protracted battle with the French government which sought to slow the deregulation of French airspace. But once British airlines made the initial breakthrough last summer, resistance became harder to sustain.

Peru: Some 50m hectares of Peruvian territory will become available for mining claims, when the government is scheduled to lift a six-month suspension on new filings.

Britain's astronomer royal: Sir Martin Rees of Cambridge University becomes the 15th holder of a post created by Charles II in 1675. In 1972, the position was detached from the directorship of the Royal Greenwich Observatory and is now honorary, carrying no duties beyond a general obligation to act as an ambassador for astronomy.

Holidays: Main markets closed for New Year holiday.

3

TUESDAY

Running-mate for Menem

Argentina's president Carlos Menem is expected to name his running-mate for the elections which are due to take place on May 14.

Decision time for Saatchi

Maurice Saatchi (left) has until today to decide whether to stay at Saatchi & Saatchi, the advertising group he founded 24 years ago. If he does remain, it will be in the largely honorary post of president of the holding company and chairman of the subsidiary, Saatchi & Saatchi Advertising Worldwide.

Small fry: The FT-SE Actuaries Fledgling Index is launched to cover companies too small to be included in the FT-SE Actuaries All-Share Index, which includes more than 98 per cent of UK stocks.

The index has been established in response to increasing interest by fund managers and individual investors in the very small companies sector.

Holidays: Japan, New Zealand, Russia, Taiwan.

4

WEDNESDAY

Quizzing for Santer's team

European Parliament committees begin questioning incoming commissioners in public hearings in Brussels (to Jan 10). Each hearing will last about two-and-a-half hours and be followed by a brief closed-door session. Parliament votes on the Commission on January 18.

The 104th US congress convenes, with a new Republican majority in both chambers: 230-204 in the House and 53-47 in the Senate. Newt Gingrich, the speaker, has a busy first 100 days ahead, with promises to introduce bills enacting his Contract with America manifesto within that span. The more cautious Senate, under Bob Dole, tends to take a longer view. The task of Democrat president Bill Clinton is to find some modus vivendi with the ascendant GOP, failing which he could have his first ever recourse to the veto.

UK government publishes the Finance Bill to turn November's Budget and last month's mini-Budget proposals into law. The bill is expected to be a monster with more than 140 clauses and 28 schedules.

Labour has promised tough opposition to several aspects of the government's taxation and spending plans and has outlined proposed amendments to clamp down on what it says are excessive executive salary increases.

Holidays: Taiwan.

5

THURSDAY

Franco-German summit

Helmut Kohl, Germany's chancellor, is due to visit Edouard Balladur, the French prime minister, at his winter holiday home at Chamonix in the French Alps. The meeting is intended to co-ordinate strategy as Paris takes over the European Union presidency from Bonn. Germany wants to maintain the momentum for bringing the countries of eastern Europe closer to the EU, despite France's reluctance.

UK education:

David Blunkett, opposition Labour party education spokesman (left), is due to speak at the second day of the North of England Education Conference at the University of York (to Jan 6). The conference, a traditional forum for politicians to unveil new policies, is likely to set the educational agenda for the year. Gillian Shephard, education secretary, speaks tomorrow.

The Bundesbank council, the policy-making body of the German central bank, holds its first meeting of the year.



Zapatista rebels, seen in 1995, are one of Mexican president Ernesto Zedillo's problems

Measures that came into effect on January 1 1995

The World Trade Organisation, the successor to the General Agreement on Tariffs and Trade, was launched. Gatt continues for a one-year transition period.

Mercosur customs union of Argentina, Brazil, Uruguay and Paraguay began.

Andean Pact countries, Bolivia, Colombia, Ecuador, Peru and Venezuela, entered into their own customs union.

Group of three free-trade area comprising Mexico, Colombia and Venezuela came into force.

Japan initiated a partial opening of its rice market, allowing 4 per cent of consumption to be supplied by imports.

European security: The Conference on Security and Co-operation in Europe (CSCE), embracing all European and Commonwealth of Independent States countries and the US and Canada, became the Organisation for Security and Co-operation in Europe (OSCE) as part of an effort to upgrade itself into a European security umbrella.

European Union expands: Austria, Finland and Sweden joined. The Union's territory grew by a third, its population by 5 per cent and its GDP by 7 per cent. Norway's voters rejected membership in a referendum in November.

Austria, being rich, will have to contribute some Sch30bn (\$2.7bn) to the EU's coffers this year, aggravating a budget deficit of 5 per cent of GDP. About a third of the money comes back as adjustment payments to farmers because the Common Agricultural Policy takes immediate effect.

Consumers are the big winners, not only on food prices, but also on many services costs where protectionist walls must come down. The Austrian National Bank is joining the European Monetary System immediately and will probably join the Exchange Rate Mechanism in short order. The schilling is rigidly pegged to the D-mark, so these moves will have no noticeable effect.

Sweden and Finland, neutral Nordic neighbours which kept their distance from western Europe during the Cold War, step into the Union hoping membership will consolidate their recovery from deep recession.

Both will become net contributors to the budget; consumers should benefit from lower food prices as trade barriers fall, but Finland's highly subsidised farmers are braced for a painful adjustment to the EU's lower farm prices. Both countries are signing up for the EMS, but intend to float their currencies for the time being.

France took over the rotating six-month presidency of the European Union from Germany against the background of campaigning for domestic presidential elections due in May.

Free-trade agreements between the EU and the three Baltic republics, Estonia, Latvia and Lithuania, came into effect. They are a first step towards eventual accession.

European Medicines Evaluation Agency opened shop in London. A pharmaceuticals licensing body for medicines marketed in more than one European Union country, it should streamline drug approvals.

Euro-gobbledygook: Britain's Plain English Campaign, which crusades against obscure bureaucratic language, has said it will turn its attention to Brussels-speak. Its Inside Write campaign is to monitor internal publications.

Germany's second Financial Markets Promotion Act, the legislative mainstay of a project to bring Finanzplatz Deutschland up to international standards in areas such as regulation and supervision, came into force. Centrepiece is a ban on insider trading with five years' jail as the maximum punishment.

First victims of the legislation have been the traditional "fireside chats" - informal pre-Christmas meetings between management and hand-picked journalists at which sensitive full-year results data were formerly

dished out as liberally as the beer and sausages.

Cost of unity: German taxpayers face a 7.5 per cent solidarity surcharge on income tax to help pay for the integration of former East Germany into the country.

UK employers' liability insurance policies, which provide cover against workplace deaths and injuries, will no longer offer unlimited cover on renewal. Insurance companies have imposed a basic claims limit of £10m.

UK commission disclosures: Under a new regime imposed by City regulators, life insurance and pensions sales agents and advisers have to give customers more information about the policies they sell and the costs of selling them.

Last gasp: Australia extended its anti-smoking provisions. Advertising of smoking materials is banned, except limited point of sale material, as is the use of brand names for promotional purposes. Packaging must bear larger health warnings.

The US's Delta Airlines began a smoking ban on all its flights.

Century of cinema: The cinema has decided to declare 1995 its 100th birthday in a year-long celebration around the globe. Paris in December 1895 saw the first audience buy tickets for the first public moving picture show in a disused ballroom.

6

FRIDAY

UK consumer credit data

Responsibility for compiling the monthly figures moves to the Bank of England from the Central Statistical Office. The new series adds lending by banks on personal accounts, by insurance companies, retailers and on all bank credit cards and charge cards, to the lending to consumers by finance houses, through unsecured lending from building societies and on MasterCard and Visa bank credit cards previously covered by the CSO.

Greece celebrates Epiphany:

Orthodox priests bless the Aegean to make it safe for the shipping industry in 1995 by throwing crucifixes into the sea at outdoor services in Piraeus port.

near Athens and every island harbour. Dozens of swimmers dive into chilly and polluted waters to recover them.

Holidays: Austria, Finland, Germany (parts), Greece, Italy, Spain, Sweden, Uruguay (Epiphany).

7-8

WEEKEND

Motor show season starts

The international motor show circuit starts on Saturday in North America with the opening of the Detroit and Los Angeles shows (both to Jan 15). The big three US auto makers are in buoyant mood, with record profits and strong demand in North America.

In 1994, the US overtook Japan to become the world's top motor vehicle producer for the first time since 1979. Pessimists suggest the domestic market may peak soon, however.

Niger's parliamentary elections, postponed from December 31 and scheduled for Saturday, are in doubt because of problems in getting the voting slips delivered from the French printers.

President Mahamane Ousmane dissolved parliament in October after a party in the ruling coalition defected to the opposition, leaving the government without a majority.

Football: FA Cup in England and Wales gets serious in its third round, as Premier League clubs join in on Saturday, Sunday and Monday.

For further events in 1995, see Page 4.

Compiled by Patrick Siles.
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ECONOMIC DIARY

Statistics to be released this week

Day Released	Country	Economic Statistic	Median Forecast	Previous Actual	Day Released	Country	Economic Statistic	Median Forecast	Previous Actual
Tues	US	Dec NAPM index	60.5%	61.2%	UK	Nov monetary statistics	-	-	-
Jan 3	US	Johnson Fedbook w/e Dec 31	-	3.3%	UK	Nov consumer cred (new definition) 475m	-	451m	-
UK	Dec M0*	0.7%	0.2%	Austria	Oct building approvals	-	-11.6%	-	-
UK	Dec M0**	6.9%	7.1%	Austria	Oct building approvals no.	-3.5%	-8.1%	-	-
UK	Purchasing managers survey	-	-						
Wed	US	Dec domestic auto sales	7.4m	7.4m					
Jan 4	US	Dec Dom light truck sales	8.1m	8.1m					
US	Nov construction spending	0.5%	0.9%						
UK	Dec official reserves	-	\$48m						
UK	Overseas travel and tourism	-	-						
Austria	Oct current account†	-A\$1.9bn	-A\$1.6bn						
Thur	US	Nov factory orders	2.2%	-0.4%					
Jan 5	US	Nov factory inventories	-	0.4%					
US	Nov home completions	-	1.37m						
Japan	Dec auto sales*	-	6.1%						
Japan	Dec forex reserves*	-	1.3%						
UK	Nov new vehicle registrations	-	-						
Jan 6	US	Dec non-farm payrolls	280,000	350,000					
Jan 2	US	Dec manufacturing payrolls	30,000	51,000					
US	Dec hourly earnings	0.3%	-0.2%						
US	Dec average workweek	-	34.6						
US	Dec unemployment rate	5.6%	5.6%						
Japan	Nov BoJ corp serv price*	-	-1.2%						
Japan	Nov BoJ corp serv price	-	-0.2%						

*month on month, †seasonally adjusted **year on year Statistics, courtesy MMS International.

Other economic news

Tuesday: Two UK indicators could revive fears of inflation. Following news last week of faster growth for notes and coin in circulation, the City is anticipating continued strong year-on-year growth of 6.9 per cent in M0 money supply in December.

There are also fears that the UK purchasing managers' survey for December will highlight potential inflationary pressures with the PMI price index remaining around November's high level of 72.

In the US, the composite index produced by the National Association of Purchasing Managers will be closely watched. According to BZW in London, a figure above 60 would, if sustained, suggest growth of 4 per cent for a few more months.

Friday: December's US labour market data will be the main focus of markets' attention. Economists expect a further jump in non-farm payrolls but no change in the 5.6 per cent unemployment rate.

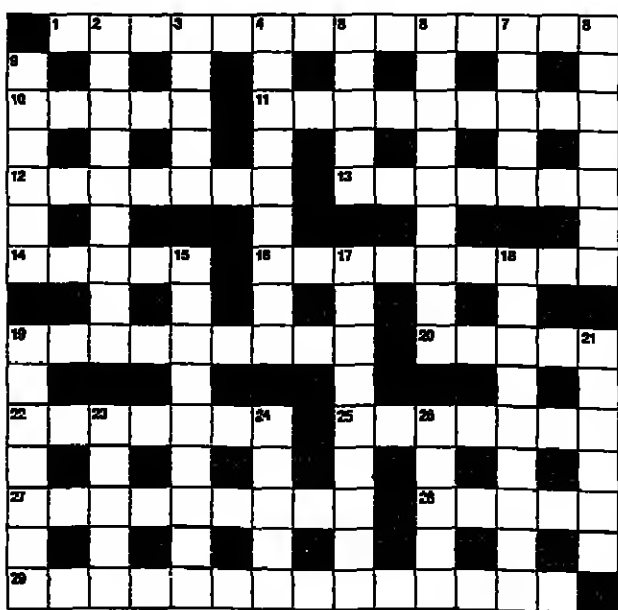
During the week, industrial production and manufacturing output are thought to have grown strongly in western Germany in November with analysts forecasting year-on-year growth rates above 6 per cent.

ACROSS

- Footwear the couple go on an icy footpath needed? (4,5)
- Where Belgium holds revolt (5)
- Five court cases about middle-class holidays (9)
- Monotony of drill work on motorway (7)
- Simplicity of a net I've designed (7)
- Doctor sick of exercise (5)
- Free student I scolded (9)
- Working on farm see fraternity member (9)
- Company's Head Office exercise (5)
- Pull off introducing infrequent transport (7)
- Staff caught volunteers returning smelly animal (7)
- Aim to pilfer novel sound device (8)
- Turn away a vicar, coming back on time (5)
- Belong about ten to hope Helen's getting in touch? (2,3,9)

DOWN

- Fruit bun I agree needs cooking (9)
- Commanded communist to go around mid-July (6)
- Distance I've motored, initially in queues (4,5)
- Labour leader said you can find missing Lord (5)
- A trip arranged by shrewd bishop (9)
- Climbing in before party, eat away (5)
- Postpone upsetting us while away (7)
- Bought off black bride, possibly (6)
- Learner takes one timid person home in car (9)
- Be taking on a role as Napoleon (9)
- Count her fancy northern club (9)
- Airmen backing artist on leave wanted melody (7)
- Leave a terrible container for one's property (6)
- Little singer has raised gratitude (6)
- Best French sleeping accommodation in Central Greece (5)
- Lead from the local timber supplier (5)



MONDAY PRIZE CROSSWORD

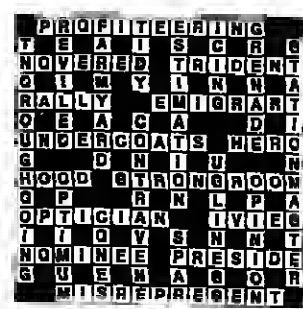
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A prize of a Pelikan New Classic 380 fountain pen for the first correct solution opened and five runner-up prizes of £25 Pelikan vouchers will be awarded. Solutions by Thursday January 12, marked Monday Crossword 8,649 on the envelope, to the Financial Times, 1 Southwark Bridge, London SE1 8UL. Solution on Monday January 16.

Name _____
Address _____

Winners 8,640

Mrs D. Carter, Souththorpe
G. Carter, London EC2
P.B. Gregg, Bakersfield, Nottingham
C. Hands, Chesham Bois, Bucks
P.J. Rowland, Brentford, Middlesex
K. Tomica, Friedrichsdorf, Germany

Solution 8,640



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